

# Iowa Individual Income Tax Expanded Instructions - Tax Year 2011

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## CONTACTS

### Where's My Iowa Refund?

[www.iowa.gov/tax](http://www.iowa.gov/tax)  
800-572-3944 (in Iowa) or 515-281-4966

### Questions About Iowa Taxes?

[www.iowa.gov/tax](http://www.iowa.gov/tax)  
515-281-3114 or  
800-367-3388 (Iowa, Omaha, Rock Island, Moline)  
[idr@iowa.gov](mailto:idr@iowa.gov)

### Questions About Federal Income Taxes

#### Internal Revenue Service:

800-829-1040  
[www.irs.gov](http://www.irs.gov)

## Are you receiving a refund or filing a return with no refund and no tax due?

Paper filed returns take weeks to process. If the return contains errors, it may take an additional six months. eFile with direct deposit to receive your refund within days.

For more eFile information, see the Department's web site at [www.iowa.gov/tax](http://www.iowa.gov/tax).

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## If you mail your return:

Send your return to:

Iowa Income Tax - Refund Processing  
Hoover State Office Building  
Des Moines IA 50319-0120

## Are you paying additional tax?

You can pay by credit or debit card or by ePay (free direct debit) through our Web site, [www.iowa.gov/tax](http://www.iowa.gov/tax), or mail your return and payment with IA 1040V Payment Voucher to:

Iowa Income Tax - Document Processing  
PO Box 9187  
Des Moines IA 50306-9187

Make checks payable to "Treasurer State of Iowa."

# IOWA INDIVIDUAL INCOME TAX 2011 — WHAT'S NEW

## LEGISLATIVE UPDATE

The 2011 Legislative Summary is available online only. Legislative changes are incorporated in the information below.

Senate File 512 enacted April 12, 2011, House File 652 enacted May 11, 2011, and Senate File 533 enacted on July 27, 2011 made changes impacting Iowa income tax provisions for tax year 2011.

**NOTE:** Iowa did not couple with the bonus depreciation provisions allowed for federal tax purposes for the 2011 tax year.

### For Individual Income Tax Filers Only:

- Allow itemized deductions in full for high income taxpayers.
- Maintain increased eligibility for student loan interest deduction.
- Maintain increased expense amount allowed for the child and dependent care credit.
- Coupled with federal earned income tax credit changes.
- Allow teachers to deduct the first \$250 of out-of-pocket expenses for classroom supplies.
- Allow individuals to deduct state sales/use tax in lieu of state income tax as an itemized deduction.
- Allow a deduction for tuition and fees for higher education.
- Allow tax free distributions from IRA's to certain public charities.
- An exemption applies to all pay received from the federal government for military service performed while on active duty status in the armed forces, the armed forces military reserve, or the national guard. Employers paying wages that qualify for this exemption should stop withholding Iowa income tax from those payments immediately.
- Make an adjustment on the 2011 tax year return for Iowa's coupling with the federal Tuition & Fees Deduction and Educator Expenses Deduction for 2010. The taxpayer has the option to amend 2010 or adjust 2011.

### For Individual Income Tax Filers as well as Corporate Income Tax (including S Corporations), Partnership, Fiduciary and Franchise Tax:

- \$500,000 Section 179 asset expensing limit for 2011.
- Make an adjustment on the 2011 tax year return for Iowa's coupling with the federal Section 179 expensing limit for 2010. The taxpayer has the option to amend 2010 or adjust 2011.

## SPECIFIC LINE INFORMATION

**Step 1 Dependent Child Health Care Coverage:** The indication of whether dependents have health care coverage is mandatory and must be completed for 2011. Taxpayers who do not have health care coverage for their children may be eligible for the state medical assistance program or the *hawk-i* program. Dependent children already covered under the Medicaid or *hawk-i* programs are considered to have health care coverage. Those who indicate they do not have health care coverage will receive information about these programs.

**Step 2 Filing Status:** Same-sex married couples must use filing status 2, 3, or 4 when filing Iowa returns. For additional information, please see Iowa Tax Treatment of Same-Sex Marriages on our Web site.

**Line 8 Taxable IRA Distributions** - Report the same amount of taxable IRA distributions as shown on your federal return. For federal tax purposes, the entire amount from a 2010 rollover of an IRA (other than a Roth IRA to a Roth IRA) could have been included in 2010 income. Another option was to include the income on the federal return in equal amounts in 2011 and 2012. Whichever option is chosen for federal tax purposes will also apply to the Iowa return.

**Line 13 Social Security Worksheet** - The phase-out of tax on Social Security continues with a 67% reduction established by the Iowa Legislature. This is an increase in the exclusion percentage, which was 55% in 2010. For more information, see the 2006 Legislative Summary for SF 2408-C on our Web site.

**Line 14 Bonus Depreciation** - Iowa has not coupled with 100% bonus depreciation. The section 179 limit for Iowa for 2011 is \$500,000.

**Line 21 Pension/Retirement Income Exclusion** - Only the pension income of a taxpayer or spouse who meets the eligibility requirements can be shown on line 21.

### Line 24 Adjustments

- **College Savings Iowa or Iowa Advisor 529 Plan:** The deductible amount for tax year 2011 cannot exceed \$2,865 per beneficiary.
- Iowa has coupled with the deduction for the value of health insurance for nonqualified dependents that are ages 25 or 26.
- Deductions are available for educator expenses for out-of-pocket expenses and the tuition and fees deduction claimed on the 2011 federal return.
- Members of the armed forces, armed forces military reserve and the national guard in an active duty status

can exclude pay received from the federal government for military service performed.

- Taxpayers who elect not to amend their 2010 return for educator expenses for out-of-pocket expenses, tuition and fees deduction, or section 179 expensing can claim these deductions for 2011.
- Do not include any deduction for the small business health insurance tax credit that was not allowed as a deduction on the federal return.

#### **Line 27 Federal Income Tax Refund Received in 2011**

Do not include any part of the refund received from Earned Income Tax Credit, Additional Child Tax Credit, First-time Homebuyer Credit, Refundable Education Credit, Adoption Tax Credit; or Making Work Pay and Government Retiree Credits.

**Line 33 FICA Amount** - FICA payments for tax year 2011 in excess of \$4,485.60 for Social Security tax for each person can be deducted as a federal tax payment.

#### **Line 37 Itemized Deductions**

- High-income taxpayers do not have to reduce their itemized deductions for 2011.

The itemized deduction for state sales and use tax in lieu of state income tax is allowed.

For Iowa purposes, the itemized deduction for state sales and use tax paid is allowed only if the taxpayer claimed an itemized deduction for state sales and use tax paid on the Federal return. If a taxpayer claimed state income taxes as an itemized deduction on the Federal return, or claimed the standard deduction on the Federal return, the taxpayer cannot claim an itemized deduction for state sales and use tax paid on the Iowa return.

If one spouse itemizes deductions, then both spouses must itemize, even if separate Iowa returns are filed.

**Line 40 Reminder - Charitable Mileage** - Iowa charitable mileage formula uses 39 cents.

#### **Line 41 Standard Deduction for tax year 2011:**

Filing Status 1: \$1,830

Filing Status 3 & 4: \$1,830 for each spouse

Filing Status 2, 5 or 6: \$4,500

#### **Line 53 Other Nonrefundable Iowa Credits**

**Reminder:** Form IA 148 Tax Credits Schedule must be completed and attached.

#### **Line 58 Reminder - Checkoffs**

Child Abuse Prevention Program Fund

Combined: Veterans Trust Fund / Volunteer Firefighter Preparedness Fund

Others: Fish and Wildlife Fund; Iowa State Fair Foundation

#### **Line 65 Reminder - Iowa Earned Income Tax Credit**

This credit is 7.0% of the federal Earned Income Tax Credit. The Iowa EITC is refundable.

#### **Line 66 Other Refundable Credits**

**Reminder:** Form IA 148 Tax Credits Schedule must be completed and attached.

#### **Line 74 Interest Rate 2012**

5% per year; 0.4% per month; 0.013661% per day

### **OTHER NEWS**

**DUE DATE:** April 30, 2012

**Farmers and fishers due date:** If at least 2/3 of income is from farming or commercial fishing, penalty for underpayment of estimated tax may be avoided in one of the following ways: (1) Pay the estimated tax in one payment on or before January 17, 2012, and file the Iowa income tax return by April 30, 2012, or (2) File the Iowa income tax return and pay the tax due in full on or before March 1, 2012.

#### **Military**

- On our web site: benefits and requirements, including information about extension of time for certain military personnel to file Iowa Income tax returns.
- See Step 1 for information on reporting county and school district numbers in Step 1.
- See our web site for information on the Military Spouses Residency Relief Act.
- See line 24 for additional information regarding changes for 2011.

#### **Payment Options:**

**ePay** (free direct debit) individual income tax estimated payments and final payment of individual income tax through the Department's online eFile & Pay system free of charge.

**Credit / debit card:** Fee is charged by the third-party vendor. Our Web site has information and links.

**Check / money order:** Send with IA 1040V payment voucher.

#### **Power of Attorney Form:**

The federal or military power of attorney form is accepted by the Iowa Department of Revenue. You must write a statement on the federal or military form that indicates you are submitting it for use with State of Iowa forms. The statement needs to be initialed by the taxpayer.

#### **Supporting Documentation**

- Do not attach supporting information to the IA 1040.
- Include all necessary supporting information, but do not staple to the return.
- Place documents in the following order:
  1. Check
  2. Payment Voucher
  3. W-2s/1099
  4. IA 1040
  5. Schedules/copy of federal return.

# Iowa Individual Income Tax Expanded Instructions for Tax Year 2011

## Before Your Begin

Make sure you have received all W-2s, 1099s, and other tax documents needed to prepare your return.

## STEP 1 NAME AND ADDRESS

**IMPORTANT:** Enter your Social Security Number(s) in the appropriate boxes on the form. Otherwise we may not be able to process your return.

**FILING PERIOD.** If your filing period is other than calendar year 2011, enter the beginning and ending dates of your fiscal tax year on the line provided above the name and address boxes on the return.

**NAME AND MAILING ADDRESS.** If your name or mailing address is incorrect, make the corrections directly on the tax return. If using a foreign mailing address in place of the domestic city, state, and ZIP, please include the foreign city, country and ZIP.

**IF YOU OR YOUR SPOUSE IS 65 OR OLDER** on 12/31/11: Check the box.

**COUNTY.** If the number on the return is incorrect, enter the number of the county you lived in as of December 31, 2011.

**Nonresidents and part-year residents** who moved out of Iowa before December 31, 2011, should enter “00” as your county number.

**Part-year residents** who moved into Iowa should enter the number of the Iowa county in which you lived on December 31, 2011.

**Military personnel** should enter the county number of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year.

**SCHOOL DISTRICT NUMBER.** The district to enter is the one in which you lived on December 31, 2011. This is not necessarily the district where your children attended school. Even if you do not have children, you must enter this number.

Your voter registration card is a good reference for your school district.

A list of school districts by county can be found online. If the number on the return is not correct, make the correction directly on the tax return.

**Nonresidents:** Those who did not live in Iowa at all during 2011 should enter “0000” for the school district number. You are not subject to school district surtax on line 55.

**Part-year residents who moved into Iowa** should enter the Iowa school district in which you lived on the last day of 2011. You may be subject to school district surtax on line 55.

**Part-year residents who moved out of Iowa** before December 31, 2011, should enter “9999.” You are not subject to school district surtax on line 55.

**Military personnel** should enter the school district number of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year. You may be subject to school district surtax on line 55.

**HEALTH CARE COVERAGE (required entry):** In the box on the upper right corner of the return, indicate the number of dependent children claimed in Step 3 who do and do not have health care coverage as of December 31, 2011. Any dependent receiving care through Medicaid or *hawk-i* is considered to have health care coverage.

## STEP 2 FILING STATUS

Your filing status on the Iowa return is usually the same filing status as on your federal return. However, married taxpayers have the option of either filing jointly (status 2) or filing separately (statuses 3 or 4) on the Iowa return, no matter how they filed on the federal return.

**If you and your spouse both have income, you may pay less tax by filing status 3 or 4.**

### STATUS 1. SINGLE.

Check filing status 1 if you were unmarried, divorced, or legally separated on December 31, 2011, and do not meet the requirements for any other filing status. All single filers must answer the question, “Were you claimed as a dependent on another person’s Iowa return?” **If this question is not answered, you will be taxed as a dependent.**

### STATUS 2. MARRIED FILING JOINT RETURN.

Check filing status 2 if you are married and want to report your income, deductions, and exemptions together in one column. Both spouses must sign the return.

Please note:

- You must have been married on December 31, 2011, or
- If your spouse died during 2011 and you did not remarry during the year, you may file status 2, 3, or 4.



**Nonresidents and Part-year Residents** of Iowa who are married may file status 2, 3, or 4 for their Iowa return even if only one spouse had income from Iowa sources.

Does your spouse have debts that may be automatically paid (offset) with your refund? Be sure to read our Injured Spouse information.

### **STATUS 3. MARRIED FILING SEPARATELY ON COMBINED RETURN.**

Check filing status 3 if you are married and want to file separately on one return. If you receive a refund, it will be made payable to both spouses. Both spouses must sign the return.

**Taxpayers using filing status 3 or 4** may have to prorate (divide) certain items between them on the return. These items include federal income tax refunds, additional federal income tax paid, etc. This information is included with instructions for most lines of the return.

**NONRESIDENTS AND PART-YEAR RESIDENTS** of Iowa who are married may file status 2, 3, or 4 for their Iowa return even if only one spouse had income from Iowa sources.

**PLEASE NOTE:** If married taxpayers file a joint return or file separately on a combined return, both spouses are jointly and *severally liable* for the total tax due on the return, except when one spouse is considered to be an innocent spouse under criteria established pursuant to section 6015 of the Internal Revenue Code.

### **STATUS 4. MARRIED FILING SEPARATE RETURNS.**

Check filing status 4 if you and your spouse file separate tax returns. Write your spouse's Social Security Number, name, and net income in the spaces provided at the top of the return in Step 2. The processing of refunds, alternate tax calculations, and/or low-income exemptions will be delayed without this information or supporting schedules.

**Taxpayers using filing status 3 or 4** may have to prorate (divide) certain items between them on the return. These items include federal income tax refunds, additional federal income tax paid, etc. This information is included with instructions for each line of the return.

**Nonresidents and Part-year Residents** of Iowa who are married may file status 2, 3, or 4 for their Iowa return even if only one spouse had income from Iowa sources.

**Married Separate Filers:** Married taxpayers filing married filing separately on a combined return or

married filing separate returns must use the combined income of both spouses in determining eligibility for exemption from tax.

If either spouse has a net operating loss that is carried back or forward, then the other spouse cannot use the low income exemption. If the spouse with the net operating loss chooses not to carry the loss back or forward, then the other can claim the low income exemption. A statement must be attached to the return saying that the spouse with the net operating loss will not carry it back or forward.

If one spouse itemizes deductions, then both spouses must itemize deductions, even if separate Iowa returns are filed.

### **STATUS 5. HEAD OF HOUSEHOLD.**

Check filing status 5 if you are filing as head of household for federal income tax purposes. If you have a qualifying person living with you who you did not claim as a dependent on this return, enter that person's name and Social Security Number. If you are filing as qualifying widow(er) with dependent child for federal income tax purposes, you cannot file as "head of household" on your Iowa return.

### **STATUS 6. QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD.**

Check filing status 6 if you meet the federal filing requirements for qualifying widow(er).

## **STEP 3 EXEMPTIONS**

**YOU** (and spouse if married filing joint)

#### **a. Personal Credit.**

If you are filing single (filing status 1), married filing separately on a combined return (status 3) or married filing separate returns (status 4) or qualifying widow(er) (status 6), enter "1" in the "Personal Credit" space.

If you are filing married filing joint (status 2) or head of household (status 5), you are eligible for an extra credit and should enter "2" in the "Personal Credit" space.

Add the number of personal credits and multiply by \$40. Enter this amount on the \$ line.

**Note:** Dependents filing their own returns claim a \$40 personal exemption credit even if they are claimed as a dependent on another person's Iowa return.

#### **b. Additional Personal Credit. 65 or older and/or blind:**

**If you were 65 or older on or before January 1, 2012**, you may take an additional personal credit. **If your spouse was 65 or older on or before January 1, 2012**, and you are filing a joint return (status 2),

you may take an additional personal credit for your spouse.

**If you were blind on or before December 31, 2011,** you may take an additional personal credit. **If your spouse was blind on or before December 31, 2011,** and you are filing a joint return (status 2), you may take an additional personal credit for your spouse.

Add the number of credits for 65 or older and blind and multiply by \$20. Enter this amount on the \$ line.

**c. Dependents: Consult IRS Publication 17 to learn who qualifies as a dependent.**

Enter the number of dependent children and other dependents you are claiming for federal income tax purposes. Add the number of dependent credits and multiply by \$40. Enter this amount on the \$ line.

The IRS determines whether or not a person is a dependent.

**Reminder:** In the box on the upper right corner of the return, you must indicate the number of these dependent children who do and do not have health care coverage as of December 31, 2011. Any dependent receiving care through Medicaid or *hawk-i* is considered to have health care coverage.

**d. Dependent Name(s).**

Enter the first name(s) of the claimed dependents. Also enter their last name(s) if different than yours.

**e. Total.**

Add the dollar amounts and enter on the TOTAL line and on line 47, column A.

**SPOUSE**

(Complete only if married filing separately on a combined return, filing status 3.)

**a. Personal Credit.**

Enter "1" in the first space and multiply by \$40. Enter \$40 on the \$ line.

**b. Additional Personal Credit. 65 or older and/or blind:**

**If your spouse was 65 or older on or before January 1, 2012,** your spouse may take an additional personal credit.

**If your spouse was blind on or before December 31, 2011,** your spouse may take an additional personal credit.

Add the number of credits for 65 or older and blind and multiply by \$20. Enter this amount on the \$ line.

**c. Dependents:**

Enter the number of dependent children and other dependents the spouse is claiming for federal income tax purposes. Add the number of dependent credits and multiply by \$40. Enter this amount on the \$ line.

The IRS determines whether or not a person is a dependent. Consult IRS Publication 17 to learn who qualifies as a dependent.

**Dependent Children Health Care Coverage.**

Reminder: In the box on the upper right corner of the return, you must indicate the number of these dependent children who do and do not have health care coverage as of December 31, 2011. Any dependent receiving care through Medicaid or *hawk-i* is considered to have health care coverage.

**d. Dependent Name(s)**

Enter the first name(s) of the claimed dependents. Also enter their last name(s) if different than yours.

**e. Total.**

Add the dollar amounts and enter on the TOTAL line and on line 47, column B.

**Married Separate Filers:** You may divide the number of dependents you claim between you and your spouse. However, you may not divide any one dependent between spouses. Each spouse must claim their own exemption credits and may not claim any unused part of their spouse's credit.

**STEP 4 GROSS INCOME**

If using filing status 3 (married filing separately on a combined return), complete both columns A and B of the IA 1040. All other filing statuses complete only column A (you or joint).

All taxpayers including nonresidents report income from *all sources* (unless specifically exempt, such as U.S. Treasury interest) for the entire year in this section.

NONRESIDENTS and PART-YEAR RESIDENTS must also complete Iowa Schedule IA 126. Report only **Iowa-source** income on the Schedule IA 126, lines 1-26. This schedule will result in a credit for the amount of tax based on income earned outside of Iowa.

**1. WAGES, SALARIES, TIPS, ETC.**

Report the same W-2 income as shown on your federal income tax return, including military income. See line 24 for allowable military adjustments.

**Note:** As a result of federal legislation, the nonresident military taxpayer does not include military pay on line 1 of the IA 1040 (nor is it reported on the IA 126). In general, this applies to active duty military and does not include the National Guard or reserve personnel.

**Military Spouses:** Be sure to read our information on the Military Spouses Residency Relief Act.

**Married Separate Filers:** W-2 income is reported by the spouse earning the income.

## 2. TAXABLE INTEREST INCOME.

Include the same amounts of interest income reported on your federal return with the following modifications. Attach a copy of your federal or Iowa Schedule B if total Iowa taxable interest is more than \$1,500.

These lists are taken from Iowa rules 40.2 and 40.3

**A. Add interest from all state and municipal securities that you own.** Also include interest from state and municipal securities you receive from any trust or mutual fund.

However, interest from certain Iowa state and municipal securities is exempt from Iowa tax and should not be included on this line.

### **The following securities are exempt:**

- Aviation Authority Bonds, Iowa Code section 330A.16
- Beginning Farmer Loan Program Bonds, Iowa Code section 175.17
- Community College Bond Program Bonds, Iowa Code section 260C.71(6)
- Community College Residence Halls and Dormitories Bonds, Iowa Code section 260C.61
- County Health Center Bonds, Iowa Code section 331.441(2)“C”(7)
- E911 Emergency Telephone Service Program Bonds, Iowa Code section 34A.20(6)
- Interstate Bridges Bonds, Iowa Code section 313A.36
- Iowa Board of Regents Bonds for buildings and facilities, Iowa Code chapters 262.41, 262.51 and 262.60
- Iowa College Super Savings Plan Bonds, Iowa Code chapter 262A
- Iowa Higher Education Loan Authority, Iowa Code section 261A.27
- Iowa Municipality Urban Renewal Bonds, Iowa Code section 403.9(2)
- Iowa Rural Water District Revenue Bonds and notes, Iowa Code section 357A.15
- Local Government Flood Damage Program, Iowa Code section 16.183(4)
- Low Income Housing Bonds, Iowa Code section 403A.12
- Municipal Investment Recovery Bonds, Iowa Code section 16.173(4)
- Prison Infrastructure Revenue Bonds, Iowa Code section 16.177(8)

- Regents Institutions Medical and Hospital Buildings at University of Iowa Bonds, Iowa Code section 263A.6
- Soil Conservation Districts Revenue Bonds, Iowa Code section 161A.22
- Quad Cities Interstate Metropolitan Authority Bonds, Iowa Code chapter 28A.24
- Sewage Treatment Works Revenue Bonds, Iowa Code section 16.131(6)
- Underground Storage Tank Fund Revenue Bonds, Iowa Code section 455G.6(14)
- Vision Iowa Program, Iowa Code section 12.71
- Warehouse Project Revenue Bonds, Iowa Code chapter 123.159
- IA Utilities Board and Consumer Advocate Building Bonds, IA Code section 422.7(45)
- Honey Creek Premier Destination Park Bonds, IA Code section 463C.12(8).
- Appropriation Bonds, IA Code section 12.87

**B. Deduct interest received from federal securities** (for example U.S. Savings Bonds, U.S. Treasury Notes). Do not subtract interest from repurchase agreements of U.S. Government securities.

### **The following are exempt:**

- a. United States Government obligations:** United States Treasury - Principal and interest from bills, bonds, and notes issued by the United States Treasury exempt under 31 USCS Section 3124[a].
  1. Series EE/E, F, G, H, and I bonds
  2. United States Treasury bills
  3. U.S. Government certificates
  4. U.S. Government bonds
  5. U.S. Government notes
- b. Territorial obligations:**
  1. Guam - Principal and interest from bonds issued by the Government of Guam (48 USCS section 1423[a]).
  2. Puerto Rico - Principal and interest from bonds issued by the Government of Puerto Rico (48 USCS section 745).
  3. Virgin Islands - Principal and interest from bonds issued by the Government of the Virgin Islands (48 USCS section 1403).
  4. Northern Mariana Islands - Principal and interest from bonds issued by the Government of the Northern Mariana Islands (48 USCS section 1681(c)).

**c. Federal agency obligations:**

1. Commodity Credit Corporation - Principal and interest from bonds, notes, debentures, and other similar obligations issued by the Commodity Credit Corporation (15 USCS section 713a–5).
2. Banks for Cooperatives - Principal and interest from notes, debentures, and other obligations issued by Banks for Cooperatives (12 USCS section 2134).
3. Farm Credit Banks - Principal and interest from systemwide bonds, notes, debentures, and other obligations issued jointly and severally by Banks of the federal Farm Credit System (12 USCS Section 2023).
4. Federal Intermediate Credit Banks - Principal and interest from bonds, notes, debentures, and other obligations issued by federal Intermediate Credit Banks (12 USCS Section 2079).
5. Federal Land Banks - Principal and interest from bonds, notes, debentures, and other obligations issued by federal Land Banks (12 USCS section 2055).
6. Federal Land Bank Association - Principal and interest from bonds, notes, debentures, and other obligations issued by the federal Land Bank Association (12 USCS section 2098).
7. Financial Assistance Corporation - Principal and interest from notes, bonds, debentures, and other obligations issued by the Financial Assistance Corporation (12 USCS section 2278b–10[b]).
8. Production Credit Association - Principal and interest from notes, debentures, and other obligations issued by the Production Credit Association (12 USCS section 2077).
9. Federal Deposit Insurance Corporation (FDIC) - Principal and interest from notes, bonds, debentures, and other such obligations issued by the federal Deposit Insurance Corporation (12 USCS section 1825).
10. Federal Financing Bank - Interest from obligations issued by the federal Financing Bank. Considered to be United States Government obligations (12 USCS Section 2288, 31 USCS section 3124[a]).
11. Federal Home Loan Bank - Principal and interest from notes, bonds, debentures, and other such obligations issued by any federal Home Loan Bank and consolidated federal Home Loan Bank bonds and debentures (12 USCS section 1433).
12. Federal Savings and Loan Insurance Corporation (FSLIC) - Principal and interest from notes, bonds, debentures, and other such obligations issued by the federal Savings and Loan Insurance Corporation (12 USCS section 1725[e]).
13. Federal Financing Corporation - Principal and interest from notes, bonds, debentures, and other such obligations issued by the federal Financing Corporation (12 USCS section 2288(b)).
14. Financing Corporation (FICO) - Principal and interest from any obligation of the Financing Corporation (12 USCS sections 1441[e][7] and 1433).
15. General Services Administration (GSA) v - Principal and interest from General Services Administration participation certificates. Considered to be United States Government obligations (31 USCS section 3124[a]).
16. Housing and Urban Development (HUD).
  - Principal and interest from War Housing Insurance debentures (12 USCS section 1739[d]).
  - Principal and interest from Rental Housing Insurance debentures (12 USCS section 1747g[g]).
  - Principal and interest from Armed Services Mortgage Insurance debentures (12 USCS section 1748b[f]).
  - Principal and interest from National Defense Housing Insurance debentures (12 USCS section 1750c[d]).
  - Principal and interest from Mutual Mortgage Insurance Fund debentures (12 USCS section 1710[d]).
17. National Credit Union Administration Central Liquidity Facility - Income from notes, bonds, debentures, and other obligations issued on behalf of the National Credit Union Administration Central Liquidity Facility (12 USCS section 1795k[b]).
18. Resolution Funding Corporation - Principal and interest from obligations issued by the Resolution Funding Corporation (12 USCS sections 1441[f][7] and 1433).
19. Student Loan Marketing Association (Sallie Mae) - Principal and interest from obligations issued by the Student Loan Marketing Association. Considered to be United States Government obligations (20 USCS Section 1087–2[1], 31 USCS section 3124[a]).
20. Tennessee Valley Authority - Principal and interest from bonds issued by the Tennessee Valley Authority (16 USCS section 831n–4[d]).



21. United States Postal Service - Principal and interest from obligations issued by the United States Postal Service (39 USCS section 2005[d][4]).
22. Treasury Investment Growth Receipts.
23. Certificates on Government Receipts.

**The following are not considered federal securities and are taxable:**

**Federal Agency Obligations:**

- Building and Loan Associations
- Credit Unions, federal or state
- Export-Import Bank of the United States
- Farmers Home Administration
- Federal Agricultural Mortgage Corporation (Farmer Mac)
- Federal Home Loan Mortgage Corporation (Freddie Mac) Securities
- Federal Housing Administration
- Federal income tax refunds, interest
- Federal National Mortgage Association
- Federal National Mortgage Association (Fannie Mae) Securities
- Government National Mortgage Association (Ginnie Mae) Securities
- Merchant Marine (Maritime Administration)
- Money Market Certificates
- Mortgage Participation Certificates
- Postal Savings Account
- Savings and Loan Associations, federal or State
- Small Business Administration

**Obligations of International Institutions:**

- Asian Development Bank
- Inter-American Development Bank
- International Bank for Reconstruction and Development (World Bank)

**Other Obligations:**

- Washington D.C. Metro Area Transit Authority

**Married Separate Filers:** Divide interest income based on ownership of the account or certificate.

- Jointly held: Divide equally between spouses.
- Held in the name of only one spouse: Allocate interest wholly to that spouse.

**3. ORDINARY DIVIDEND INCOME.**

Include a copy of your federal or Iowa Schedule B if your Iowa taxable dividends are more than \$1,500.

Report the same dividends as you reported on your federal return with the following modifications:

- a. Add** all dividends from mutual funds, investment trusts, or regulated investment companies investing in state and municipal bonds.
- b. Deduct** that portion of any net dividends from a mutual fund, investment trust, or regulated investment company that is attributable to direct federal securities. You cannot take this deduction unless you are provided a statement from the fund giving the percentage of net dividends attributable to direct federal securities. A copy of the statement must be attached to the return to take this deduction.

**Interest income from repurchase agreements** involving federal securities cannot be deducted.

**Married Separate Filers:** Divide dividends based on registered ownership of stock.

- Jointly held: Divide equally.
- Held in the name of only one spouse: Allocate dividends wholly to that spouse.

**4. ALIMONY RECEIVED.**

Include the same alimony as shown on your federal return.

**Married Separate Filers:** Reported by the spouse who received the alimony.

**5. BUSINESS INCOME/(LOSS)**

Report the net business income or loss from federal Schedule C or C-EZ. Include a copy of the federal form.

The IA 4562A may need to be completed if the taxpayer claimed the bonus depreciation/section 179 deduction on the federal return. For more information on bonus depreciation/section 179, see information on line 14.

If one spouse has a loss, the couple may want to determine if filing status 2 is to their advantage.

**Married Separate Filers:** Reported by the spouse deriving the income or loss.

**6. CAPITAL GAIN/(LOSS).**

Enter 100% of any capital gain or loss as reported on line 13 of your federal 1040. Do not subtract any Iowa capital gain deduction for certain business/farm assets only on this line; the Iowa capital gain deduction is taken on line 23 of the IA 1040.

Iowa tax law generally follows the federal guidelines on the exclusion of gain on the sale of a principal residence.

A copy of your federal Schedule D must be included with this return if required for federal.

**Married Separate Filers:**

Taxpayers who filed separate federal returns should report capital gain or loss as reported for federal tax purposes.

If a joint federal return was filed, each spouse must report capital gain on the basis of ownership of the property sold or exchanged. The combined net capital gain or loss must be the same as reported on the joint federal return.

If a joint federal return was filed and both spouses have capital losses, each spouse may claim up to a \$1,500 capital loss plus any unused portion of their spouse's \$1,500 loss limitation. If both spouses are reporting capital losses, the sum of both spouses' losses may not exceed \$3,000.

**7. OTHER GAINS/(LOSSES).**

If you sold or exchanged assets used in a trade or business and completed federal form 4797, enter 100% of the gain or loss as shown on line 14 of the federal 1040. Include a copy of federal form 4797.

**Married Separate Filers:** Divide gains or losses based on ownership of the asset sold or exchanged.

**8. TAXABLE IRA DISTRIBUTIONS.**

Enter the amount of taxable IRA distributions as shown on your federal return. Taxpayers age 70½ and older can distribute up to \$100,000 from their individual retirement account to certain charitable organizations without including the distribution in gross income.

Current traditional IRA owners may convert or "roll over" amounts from existing traditional IRAs to a Roth IRA. However, any taxable amounts that you transfer from an existing traditional IRA to a Roth IRA must be included as income for tax purposes.

For federal tax purposes, the entire amount from a 2010 rollover of an IRA (other than a Roth IRA to a Roth IRA) could have been included in 2010 income. Another option was to include the income on the federal return in equal amounts in 2011 and 2012. Whichever option was chosen for federal tax purposes will also apply to the Iowa return.

**Note:** The pension/retirement income exclusion is not to be taken on this line. Qualified taxpayers will take the pension/retirement income exclusion on line 21 of the IA 1040.

**Married Separate Filers:** Taxable IRA distributions should be reported by the spouse whose name is on the account.

**9. TAXABLE PENSIONS AND ANNUITIES.**

The same amounts of pensions and annuities are taxable for Iowa as are taxable for federal.

If you are a state or local government employee who retired after December 31, 1994, your taxable pensions and annuities on your Iowa return may be different than on your federal return. In these cases, see the 1099-R issued by IPERS (Iowa Public Employees Retirement System), for the taxable amount.

Railroad Retirement benefits paid by the Railroad Retirement Board are not taxable on the Iowa return. These benefits should not be included on this line.

**The pension/retirement income exclusion is not taken on this line.** Qualified taxpayers will take the pension/retirement income exclusion on line 21 of the IA 1040.

**Married Separate Filers:** The taxable portion of pensions and annuities is reported by the spouse who received the income.

**10. RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, ETC.**

Report the income or loss from federal Schedule E. Any modifications to federal partnership income and/or S corporation income should be shown on line 14 or line 24 of the IA 1040. Include a copy of federal Schedule E.

**Married Separate Filers:** Divide income or loss from Schedule E based upon ownership of the asset-producing income or partnership interest or individual named as beneficiary.

**11. FARM INCOME/(LOSS).**

Enter the income or loss from federal Schedule F. Include a copy with your Iowa return.

The IA 4562A may need to be completed if the taxpayer claimed the bonus depreciation/section 179 deduction on the federal return. For more information on bonus depreciation/section 179, see line 14.

**Married Separate Filers:** Farm income must be reported by the spouse who claims it for self-employment tax purposes on the federal Schedule SE.

If the other spouse claims a share of the farm income, then that spouse must attach a worksheet showing how that share was determined based on capital contribution, management and control, and services rendered.

**12. UNEMPLOYMENT COMPENSATION.**

Enter the amount of unemployment compensation benefits that was taxable on your federal return with the following modification:

- Do not include unemployment compensation and sickness insurance benefits paid by the Railroad Retirement Board.

**Married Separate Filers:** If both spouses received unemployment benefits, each of the spouses should report the benefits received as shown on the 1099-G for each spouse.

### 13. TAXABLE SOCIAL SECURITY BENEFITS.

Iowa does not tax Social Security benefits in the same manner as the Internal Revenue Service. To compute the amount of Social Security benefits that are taxable to Iowa, complete the worksheet below.

The worksheet below calculates the 2011 67% phase-out on Social Security benefits established by the Iowa Legislature. For more information, see the 2006 Legislative Summary for SF 2408-C on our Web site.

#### SOCIAL SECURITY WORKSHEET

1. Enter the amount from Box 5 of form(s) SSA-1099. If you filed a joint federal return, enter the totals for both spouses. Do not include Railroad Retirement benefits from form RRB-1099 here. . 1. \_\_\_\_\_
2. Enter one-half of line 1 amount. .... 2. \_\_\_\_\_
3. Add amounts from the federal 1040 on lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099.\* If filing federal 1040A, use lines 7, 8a, 9a, 10, 11b, 12b, and 13, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099. Include any bonus depreciation/section 179 adjustment from line 14 of the Iowa 1040 to compute correct amount. .... 3. \_\_\_\_\_
4. Enter the amount from line 8b of your federal 1040 or 1040A. .... 4. \_\_\_\_\_
5. Add lines 2, 3, and 4. .... 5. \_\_\_\_\_
6. Enter total adjustments from federal 1040, lines 23 through 32, plus any write-in adjustments you entered on the dotted line next to line 36. If filing federal 1040A, use the total of lines 16 and 17. .... 6. \_\_\_\_\_
7. Subtract line 6 from line 5. .... 7. \_\_\_\_\_
8. Enter one of the following amounts based on the federal filing status used on form 1040 or 1040A. .... 8. \_\_\_\_\_
  - Single, head of household, qualifying widow(er): enter \$25,000.
  - Married filing joint: enter \$32,000.

- Married filing separate: enter -0- if you lived with your spouse at anytime in 2011 or \$25,000 if you did not live with your spouse at any time in 2011.

9. Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, none of the Social Security benefits are taxable. . 9. \_\_\_\_\_
10. Enter one-half of line 9. .... 10. \_\_\_\_\_
11. Iowa Taxable Social Security benefits before Phase-out: Enter the smaller of line 2 or line 10. .... 11. \_\_\_\_\_
12. Iowa Taxable Social Security Phase-out: Multiply line 11 by 67% (.67). .. 12. \_\_\_\_\_
13. Iowa Taxable Social Security after Phase-out (Reduced Iowa Taxable Social Security): Subtract line 12 from line 11 and enter here and on line 13 of form IA 1040. .... 13. \_\_\_\_\_

**Bonus Depreciation / Section 179:** Iowa taxpayers who received Social Security benefits in 2011 and claimed bonus depreciation / section 179 on their federal returns may have to recompute their taxable benefits on the worksheet.

Those who need to recompute the taxable Social Security benefits should add the adjustment from line 5 of Schedule IA 4562A to the other amounts shown on line 3 of the Social Security Worksheet from the federal return and the RRB 1099. The rest of the form is then completed with the amounts normally used to complete the worksheet from the federal 1040 or 1040A.

**Include the following incomes or adjustments to income on line 3 if applicable. (These were excluded from federal AGI.):**

- foreign-earned income
- income excluded by residents of Puerto Rico or American Samoa
- proceeds from Savings Bonds used for higher education and
- employer-provided adoption benefits.

Although Railroad Retirement benefits are not taxable, one-half of the benefits received must be used to determine the amount of Social Security benefits that are taxable to Iowa. For purposes of determining taxable Social Security benefits, you must also include interest from federal securities.

#### Married Separate Filers:

- If both spouses received Social Security benefits, the taxable amount is allocated between the spouses in the ratio of the benefits received by one spouse to the total benefits received.

- If only one spouse received benefits, that spouse should report the portion of the benefits that is taxable.

#### 14. OTHER INCOME.

Enter taxable income not reported on lines 1-13. Include an explanation of the type of income. Examples of income to be reported on line 14 include:

- a. **Baby-sitting income** not reported on federal Schedule C or C-EZ.
- b. **Bonus Depreciation adjustment** from the IA 4562A; include the IA 4562A and IA 4562B with your return.
- c. **Capital gain from installment sales in 2011:** Accrual-method taxpayers may now use the installment method for reporting capital gain on their Iowa returns.
- d. **College Savings Iowa (Iowa Educational Savings Plan Trust) or Iowa Advisor 529 Plan:** Income received from the cancellation of a participation agreement to the extent the amount was previously deducted on line 24 of the IA 1040.
- e. **Director's fees**
- f. **Drilling:** Intangible drilling costs that were reported on federal form 6251.
- g. **Executor's fees**
- h. **Gambling winnings:** You must report the full amount of gambling winnings. Report any tax withheld on line 60 of the IA 1040. Gambling losses may be reported as an itemized deduction on Schedule A, but you cannot deduct more than the winnings you report.
- i. **Partnership income and/or S corporation income:** Modifications that increase the income reported on line 10 of the IA 1040.
- j. **Refundable Iowa Credits** received in 2011 which were included as income on the federal 1040 must be added back.
- k. **Refunds:** State income tax refunds other than Iowa to the extent that the tax refunded in 2011 was deducted on a prior Iowa return.
- l. **Wells:** Percentage depletion from an oil, gas, or geothermal well that was reported on federal form 6251.
- m. **Other income** as reported on line 21 of the federal 1040.

#### Married Separate Filers:

The spouse to whom the income was paid must report that income. Modifications to partnership and/or S corporation income are allocated between spouses in the same manner as that income was divided on line 10, IA 1040.

#### 15. GROSS INCOME.

Add lines 1 through 14 and enter the total.

### STEP 5 ADJUSTMENTS TO INCOME

*All taxpayers* report adjustments from *all sources* in this section.

**Nonresidents and Part-year Residents** must also report **Iowa-source** adjustments to income on Schedule IA 126, lines 16-24.

#### 16. PAYMENTS TO AN IRA, KEOGH, or SEP.

Enter the amount claimed on your federal tax return for payments made to your IRA, Keogh Plan, SEP, SIMPLE, or Qualified Plans.

Payments made to a Roth IRA are not deductible.

#### Married Separate Filers:

- **If only one spouse has earned income**, that individual can contribute up to \$5,000 per year (\$6,000 if 50 or older) to an IRA account of the nonworking spouse and up to \$5,000 per year (\$6,000 if 50 or older) to an IRA account of the individual.  
  
When claiming the deduction between spouses, the working spouse will usually claim all of the deduction, not to exceed the federal limits for both spouses. However, if the nonworking spouse has any earned income, then the nonworking spouse must claim the deduction to the extent of his or her earned income. The working spouse will then claim the balance of the IRA contribution of both spouses.
- **If both spouses earned income and made contributions to an IRA account**, each spouse must claim his or her own contribution, not to exceed \$5,000 per spouse (\$6,000 if 50 or older).
- **If both spouses made contributions to an IRA but only a portion of the contribution is deductible on the federal return**, the amount of the IRA deduction that is allowed for federal income tax purposes must be allocated between the spouses in the ratio of the IRA contribution made by each spouse to the total IRA contribution made by both spouses.
- **For Keogh Plans, SEPs, SIMPLE, or Qualified Plans**, each spouse must claim his or her individual contributions.



## 17. DEDUCTIBLE PART OF SELF-EMPLOYMENT TAX.

Enter the amount of self-employment tax that was deductible on line 27 of your federal 1040 in computing federal adjusted gross income.

**Married Separate Filers:** The deduction is allocated in the ratio of self-employment tax paid by each spouse to the total self-employment tax paid.

## 18. HEALTH INSURANCE DEDUCTION.

It is typically to your advantage to take the deduction on line 18 instead of Schedule A, due to the Schedule A reduction of medical and dental expenses by 7.5% of federal AGI. Schedule A may not contain any health or dental insurance premiums which were used as a deduction on line 18.

Enter 100% of the amount paid for:

- health insurance premiums
- supplemental health insurance, such as Medicare B supplemental medical insurance and Medicare D voluntary prescription drug insurance program
- dental insurance premiums
- long-term nursing home coverage premiums

Do **NOT** include

- “Medicare tax withheld” on your W-2).
- pretax premiums

### About Pretax Premiums

This deduction is not available to individuals who have paid health or dental insurance premiums on a pretax basis. **Pretax occurs when** an employer subtracts the amount of the health or dental insurance premium from an employee’s gross wages before withholding federal and state income taxes. See your payroll department if you do not know whether or not your health or dental insurance was paid on a pretax basis.

### Married Separate Filers:

If one spouse is employed and has health or dental insurance premiums paid through his/her wages, that spouse will claim the entire deduction. If both spouses pay health or dental insurance premiums through their wages, each spouse will claim what that individual paid.

If both spouses have self-employment income, the deduction for self-employed health or dental insurance must be allocated between the spouses in the ratio of each spouse’s self-employment income to the total self-employment income of both spouses. If health or

dental insurance premiums are paid directly by one spouse, that spouse will claim the entire deduction. If both spouses paid through a joint checking account, the deduction would be allocated between the spouses in the ratio of each spouse’s net income to the total net income of both spouses. For this net income calculation, do not include line 18, the health or dental insurance deduction.

## 19. PENALTY ON EARLY WITHDRAWAL OF SAVINGS.

The form 1099-INT given to you by your bank or other savings institutions will show the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity. Enter this amount here. Include interest income from the time deposit on line 2 of the IA 1040.

**Married Separate Filers:** Divide the penalty amount between spouses based upon registered ownership of the time deposit.

- Jointly held: Divide the penalty equally between spouses.
- Held in the name of only one spouse: Allocate the entire penalty to that spouse.

## 20. ALIMONY PAID.

Enter the amount of alimony payments or separate maintenance payments that were deductible on your federal tax return.

**Married Separate Filers:** Only the spouse liable for these payments can deduct the alimony paid.

## 21. PENSION/RETIREMENT INCOME EXCLUSION.

If you or your spouse receive a pension, an annuity, a self-employed retirement plan, deferred compensation, IRA distribution or other retirement plan benefits, you may be eligible to exclude from Iowa income tax part or all of the retirement income that is taxable on your federal return. The Roth conversion income, included in net income, is eligible for this exclusion. Social Security benefits are **not** included.

The exclusion can be *up to* \$6,000 for individuals who file status 1, 5, or 6 and *up to* \$12,000 for married taxpayers who file status 2, 3, or 4. (If, for example, an individual has \$5,000 in pension/retirement income, the exclusion will be the actual \$5,000, not the maximum of \$6,000.)

To take this exclusion the pensioner or retirement income recipient must meet one of the following conditions:

- a. 55 years of age or older on December 31, 2011, or
- b. disabled, or
- c. a surviving spouse or a survivor having an insurable interest in an individual who would have qualified for the exclusion in 2011 on the basis of age or disability. **A survivor other than the surviving spouse** is considered to have an “insurable interest” if the survivor is a son, daughter, mother, or father of the annuitant or pensioner.

**Only the pension income of the spouse who meets the eligibility requirements can be shown on line 21.** Please see examples below for further guidance.

**Example 1:** A married couple elected to file separately on the combined return form. One spouse was 52 years of age and received a pension income of \$20,000. The other spouse was 55 years of age and received no pension income. Since the spouse receiving the pension income was not 55 years of age, no exclusion is allowed on the Iowa return.

**Example 2:** A married couple elected to file separately on the combined return form. One spouse was 52 years of age and received a pension income of \$10,000. The other spouse was 55 years of age and received a pension income of \$8,000. Since only one spouse receiving the pension income was 55 years of age, an exclusion of \$8,000 is allowed on the Iowa return. The exclusion of \$8,000 is allowed since a married couple is allowed a combined exclusion of up to \$12,000.

**Example 3:** A married couple elected to file a joint return. One spouse was 52 years of age and received a pension income of \$10,000. The other spouse was 55 years of age and received a pension income of \$5,000. Since only one spouse receiving the pension income was 55 years of age, an exclusion of \$5,000 is allowed on the Iowa return.

**Example 4:** A spouse dies during the year at the age of 60 without receiving any pension income. The surviving spouse is not disabled, is 50 years old, and receives a pension from a previous employer. The surviving spouse is not eligible for any pension exclusion. Since the surviving spouse is the one receiving the pension income, the eligibility of the deceased spouse doesn't allow the survivor to take the exclusion.

Had the pension income been attributable to the deceased spouse, then the surviving spouse could take the exclusion.

**Example 5:** A 54-year old single filer receives \$5,000 pension income of a deceased parent. The deceased parent would have qualified for the pension exclusion. The 54-year old also receives pension income of their own in the amount of \$10,000. The 54-year old can take a pension exclusion in the amount of \$5,000 based upon their insurable interest in the parent who would have qualified.

**Example 6:** Same facts as Example 5, except the 54-year old is married and the amount of the parent's pension received is \$15,000. The 54-year old's spouse does not meet the pension exclusion requirements either. The allowable pension exclusion is \$12,000.

**Married Separate Filers:** If both spouses have pension income, and both meet the eligibility requirements, the exclusion of up to \$12,000 is prorated between them in the ratio that each spouse's pension relates to the total pension received by both spouses. If only one spouse has pension income and meets the eligibility requirements, that spouse takes the entire exclusion of up to \$12,000. The spouse who has no pension income receives no exclusion.

## 22. MOVING EXPENSE DEDUCTION.

Enter moving expenses incurred in 2011. Include a copy of federal form 3903.

**Married Separate Filers:** This deduction must be divided between spouses based on earned income received after their move. If one spouse can show that the move was made for that spouse, that spouse is entitled to the entire deduction.

## 23. IOWA CAPITAL GAIN DEDUCTION FOR CERTAIN BUSINESS / FARM ASSETS ONLY.

This is a deduction of qualifying net capital gain realized in 2011. *Note:* Line 23 can be more than the net total reported on Schedule D. Unrelated losses are **not** to be included in the computation of the deduction. An example of an unrelated loss is the sale of common stock at a loss.

**NOTE:** This deduction is subject to review by the Iowa Department of Revenue.

Should the Department request it, the information on the Capital Gain Deduction Checklist will be needed to verify whether you qualify for the deduction. Other information, in addition to that shown on the checklist, may also be required in some situations.

### Definitions

**“Lineal descendant”** means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grand-

children, and any other lineal descendants of the taxpayer.

**“Holding period” —**

**For Sales Before 2006:** In determining the 10-year holding period for eligibility for the Iowa capital gain deduction, the asset being sold had to be owned by the taxpayer for the immediately preceding 10 years to qualify for the deduction. In cases involving like-kind exchanges, inherited property or gifted property, the time period that the assets were owned may be different than the holding period determined for federal income tax purposes.

**For Sales in 2006 and subsequent years:** In determining the 10-year holding period for eligibility for the Iowa capital gain deduction, the federal holding period provisions set forth in section 1223 of the Internal Revenue Code and regulations adopted by the Internal Revenue Service will be used.

**“Material participation”** - Iowa follows federal guidelines for determining material participation for purposes of the capital gain deduction. Determining material participation can be a complex issue.

For further examples in addition to those below see Iowa Administrative Code 40.38.

The following are only a limited sampling of individuals in specific types of activities that may have unique problems or circumstances related to material participation in a business:

**1. Limited partners of a limited partnership.** The limited partners will not be treated as materially participating in any activity of a limited partnership except in a situation where the limited partner would be treated as materially participating under the material participation tests.

**2. Work not customarily done by owners.** Work done in connection with an activity is not treated as participation in the activity if both of the following apply:

Such work is not of a type that is customarily done by an owner of such activity; and

One of the principal purposes for the performance of such work is to avoid the disallowance of any loss or credit from such activity.

**3. Participation in a business by an investor.** Work done by an individual in the individual’s capacity as an investor in an activity is not considered to be material participation in the business or activity unless the investor is directly involved in the day-to-day management or operations of the activity or business.

**4. Cash farm lease.** A farmer who rents farmland on a cash basis will not generally be considered to be materially participating in the farming activity. The burden is on the landlord to show there was material participation in the cash-rent farm activity.

**5. Farm landlord involved in crop-share arrangement.** A farm landlord is subject to self-employment tax on net income from a crop-share arrangement with a tenant. The landlord is considered to be materially participating with the tenant in the crop-share activity if the landlord meets one of the four following tests:

TEST 1. The landlord does any three of the following: (1) Pay or be obligated to pay for at least half the direct costs of producing the crop; (2) Furnish at least half the tools, equipment, and livestock used in producing the crop; (3) Consult with the tenant; and (4) Inspect the production activities periodically.

TEST 2. The landlord regularly and frequently makes, or takes part in making, management decisions substantially contributing to or affecting the success of the enterprise.

TEST 3. The landlord worked 100 hours or more spread over a period of five weeks or more in activities connected with crop production.

TEST 4. The landlord has done tasks or performed duties which, considered in their total effect, show that the landlord was materially and significantly involved in the production of the farm commodities.

**6. Conservation reserve payments.** Farmers entering into long-term contracts providing for less intensive use of highly erodible or other specified cropland can receive compensation for conversion of such land in the form of an “annualized rental payment.” Although the CRP payments are referred to as “rental payments,” the payments are considered to be receipts from farm operations and not rental payments from real estate.

If an individual is receiving CRP payments and is not considered to be retired from farming, the CRP payments are subject to self-employment tax. If individuals actively manage farmland placed in the CRP program by directly participating in seeding, mowing, and planting the farmland or by overseeing these activities, the owner will be considered to have had material participation in the farming activity.

**7. Rental activities or businesses.** The general rule is that a taxpayer who actively participates in a rental activity or business which would be considered to have been material participation in another business

or activity would be deemed to have had material participation in the rental activity unless covered by a specific exception. For example, the exceptions for farm rental activities in numbered paragraphs “4,” “5,” and “6” immediately above. Rental activity or rental business has the same meaning as the term is used in section 469(c) of the Internal Revenue Code.

**EXAMPLE.** Ryan Stanley is an attorney who has owned two duplex units since 1991 and has received rental income from these duplexes since 1991. Mr. Stanley is responsible for the maintenance of the duplexes and may hire other individuals to perform repairs and other upkeep on the duplexes. However, no person spends more time in maintaining the duplexes than Mr. Stanley. The duplexes are sold in 2010, resulting in a capital gain. Mr. Stanley can claim the capital gain deduction on the 2010 Iowa return since he met the material participation requirements for this rental activity.

#### **Qualifying capital gain results from the sale of the following:**

- a. Real property used in a business in which the taxpayer materially participated for 10 years immediately prior to the sale, and which has been held for a minimum of 10 years immediately prior to its sale.
- b. A business in which the taxpayer was employed or in which the taxpayer materially participated for 10 years and which has been held for a minimum of 10 years immediately prior to its sale. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business which is intangible personal property such as client lists, goodwill, patents, trade names, and similar items. This means that the sale of the assets of a business during the tax year must represent at least 90% of the fair market value of all of the tangible personal property of the business on the date of sale of the business assets. Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement for material participation.
- c. Cattle and horses used for breeding, draft, dairy, or sporting purposes and held for 24 months by the taxpayer who received in excess of 50% of his or her gross income from farming and ranching. Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement to have in excess of 50% of gross income from farming and ranching.
- d. Breeding livestock, other than cattle and horses, held for 12 months by the taxpayer who received in excess

of 50% of his or her gross income from farming or ranching. Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement to have in excess of 50% of gross income from farming and ranching. *Note:* The cattle, horses, and other livestock that are excluded from taxation are the sales of the same classes of livestock that qualify for capital gain treatment under section 1231 of the Internal Revenue Code.

- e. Timber held by the taxpayer for more than one year. Timber includes evergreen trees, such as Christmas trees, that are more than six years old at the time they are cut and sold for ornamental purposes. “Timber” means timber that qualifies for capital gain treatment under section 1231 of the Internal Revenue Code.

**The sales of items “a” through “e” by partnerships, subchapter S corporations, and LLCs,** where the capital gain flows through to the owners of the entities for federal income tax purposes are eligible for the 100% capital gain deduction in cases where the owners meet the qualifications for ownership and material participation. However, sales of the same items by a C corporation do not qualify for the capital gain deduction except when the capital gain from the sales of the corporation’s assets are reported by the shareholders due to a liquidation of the corporation. The liquidation must be recognized as a sale of assets under section 331 of the Internal Revenue Code. The shareholders must meet the qualifications for ownership and material participation.

#### **Non-Qualifying Capital Gain**

Capital gain from the sales of stocks, bonds, and investment property does not qualify for the capital gain deduction even if sold to lineal descendants of the owners of the property. Non-farm rental property may qualify. The federal guidelines apply for determining material participation for investment property. Capital gain from the sale of real property held for 10 or more years for speculation, but not used in a business, does not qualify for the deduction.

If the sale of the assets of a business involves the sale of merchandise or inventory of a business, proceeds from these sales do not qualify for the capital gain deduction.

Capital gain from the sale of capital stock of an Iowa corporation or capital gain from the sale of an ownership interest in a partnership, limited liability company, or other business entity does not constitute a qualifying sale of a business for purposes of the capital gain deduction.



## Installment Sales

In the case of installment sales of qualified real property and installment sales of businesses where the selling price of the business assets is paid to the seller in more than one year, only installments received in the 2011 tax year qualify for this deduction on the 2011 return.

In the case of an installment sale of a business which was made in a year prior to 1998, only installments received in 1998 or in subsequent tax years will be exempt from income tax in cases where the taxpayer at the time of the installment sale had met conditions that would exempt the net capital gain from tax, if the installment sale had occurred in 1998 or later.

Accrual-method taxpayers: See instructions for line 14 of the IA 1040.

## Net Operating Losses

For tax years beginning on or after January 1, 1998, the capital gain deduction otherwise allowable is not allowed in computing a net operating loss (NOL) deduction for purposes of carrying the net operating loss deduction to another tax year. Further, when applying an NOL from tax year 1998 or later, the capital gain deduction is not allowed in the carryback or carryover tax year and must be added back to that year's income to the extent of the NOL.

**Married Separate Filers:** Divide the capital gain deduction based on ownership of the asset.

- Jointly held: Divide equally between spouses.
- If other than jointly held: Divide between spouses based on percentage of ownership.

## 24. OTHER ADJUSTMENTS.

Enter the total of other allowable adjustments as described below. Include an explanation for each adjustment. Do not include any deduction for the small business health insurance tax credit that was not allowed as a deduction on the federal return.

### a. Accrual method:

Taxpayers who had capital gains in 2011 that were reported on the installment method for federal tax purposes and the entire gain was reported for Iowa in a prior year do not have to report installments.

### b. Alternative motor vehicle deduction:

Alternative motor vehicle deduction of \$2,000 for those completing federal form 8910 (Alternative Motor Vehicle Credit)

**The Internal Revenue Service certifies whether or not a vehicle qualifies.**

A complete list of vehicle models that have been certified for the Alternative Motor Vehicle Credit can be seen on the IRS Web site.

### c. Capital gain from installment sales reported on the 2001 Iowa return using the accrual method:

The installment method for reporting capital gain for accrual accounting taxpayers is adopted for Iowa individual income tax purposes for tax years beginning on or after January 1, 2002. However, if you used the accrual method of accounting and reported the entire capital gain on the 2001 Iowa return which was reported on the installment method for federal tax purposes, deduct the amount reported of any additional installments from that capital gain on this line.

### d. Capital or ordinary gain from involuntary conversion related to eminent domain:

An exclusion of both capital gain and ordinary gain is available for individual income taxpayers relating to capital or ordinary gain income realized by a taxpayer as a result of the involuntary conversion of property due to eminent domain. Eminent domain relates to the authority of certain government agencies or instrumentalities of government to condemn private property for any public improvement, public purpose, or other public use.

If there is no ordinary or capital gain recognized for tax purposes because the converted property is replaced with property that is similar to, or related in use to, the converted property, there is no exclusion allowed for Iowa tax purposes until the remaining gain is recognized for federal tax purposes or until the time of disposition of the replacement property. Any exclusion allowed for Iowa tax purposes does not alter the basis of the property as established for federal tax purposes, so the basis will remain the same for both federal and Iowa tax purposes.

### e. Claim of Right Deduction:

If income was repaid in the 2011 tax year and was reported and taxed on a prior Iowa return, that income may be deducted on the 2011 tax return. However, it may be to your advantage to take a credit on line 66. You may take either the deduction on this line or take a credit on line 66, but not both.

**Example of Claim of Right Deduction:** A taxpayer reported \$7,000 in unemployment benefits on the 2009 Iowa return. In early 2011 the taxpayer was notified that \$4,000 of the unemployment benefits had to be repaid. The benefits were repaid by the end of 2011. The taxpayer may claim a \$4,000 income adjustment on line 24 of the 2011 Iowa return.

**f. College Savings Iowa Advisor 529 Education Savings Plans:**

If you or your spouse participate in the College Savings Iowa 529 Plan (Iowa Educational Savings Plan Trust) or the Iowa Advisor 529 Plan, each may deduct an amount contributed not to exceed \$2,865 per beneficiary. These are Iowa Section 529 Plans. **Please note:** A rollover from another state's 529 plan qualifies toward the deduction for Iowa income tax.

**g. Disability income exclusion:**

You may exclude from Iowa tax a portion of the disability pay you received in 2011 if you meet ALL of the following conditions:

- You received disability pay, and
- You were not yet 65 when your tax year ended, and
- You retired on disability and were totally and permanently disabled when you retired, and
- On January 1, 2011, you had not yet reached the age when your employer's retirement program would have required you to retire.

If you meet all of these conditions, obtain form IA 2440. You **MUST** complete form IA 2440 to take this exclusion. A doctor's statement must accompany each year's return attesting to the taxpayer's complete and permanent disability.

**h. Domestic production activities deduction** from line 35 of the federal 1040:

Iowa allows the deduction for qualified production activities income set forth in section 199 of the Internal Revenue Code for tax periods beginning on or after January 1, 2005.

**i. Educator expenses:** Enter out-of-pocket teacher expenses as allowed on the federal 1040. A deduction is allowed for up to \$250 annually of expenses incurred by teachers, instructors, counselors, principals, etc., for books, supplies, computer equipment and materials used in the classroom.

The taxpayer can also choose to make an adjustment on the 2011 tax year return for Iowa's coupling with the federal Educator Expenses Deduction for 2010. The taxpayer has the option to amend 2010 or adjust 2011.

**j. Employee benefits for same-sex married couples:** The federal and state tax treatment of certain employee benefits will now differ under Iowa law. Because federal law does not recognize same-sex marriage, certain benefits that are tax-exempt when extended to opposite sex spouses and the children of opposite sex spouses will generally be taxable federally when they are provided for same-sex

spouses and their children. For Iowa tax purposes, if an employee benefit is tax-exempt when extended to the opposite sex spouse of an employee, or to the children of the spouse, the benefit is tax-exempt when extended to a same-sex spouse or to the children of the spouse.

**k. Employer Social Security Credit from federal return:** If your business was in the food or beverage industry and you claimed a credit for a portion of employer Social Security tax on employee tips, you may claim a deduction on line 24 for this credit.

**l. Federal Alcohol Fuel Credit from federal return:** If you claimed an Alcohol Fuel Credit on your federal tax return, enter the amount of your Alcohol Fuel Credit here and attach a copy of federal form 6478.

**m. Film production income exclusion (HF 892-C)**

Income received by Iowa residents from qualified film expenditures relating to certain film, television, or video projects is eligible for this exclusion. The film, television, or video project must be registered with the film office of the Department of Economic Development and must have expenditures of at least \$100,000 in Iowa.

A qualified expenditure is a payment to an Iowa resident for the sale, rental, or furnishing of tangible personal property or for services directly related to the registered project. The exclusion is allowed only to the extent that income is included in federal adjusted gross income.

A taxpayer who claims the film qualified expenditure tax credit is not eligible for the income tax exclusion. For projects registered on or after July 1, 2009, the income tax exclusion for qualified film expenditures must be taken over a four-year period, starting with the tax year in which the qualified expenditure occurred and for the ensuing three years. Consequently, as it relates to defined new projects, the income tax exclusion for a tax year cannot exceed 25% of the amount of the qualified expenditures. The exclusion remains available only to Iowa residents and Iowa-based businesses.

**n. Foreign-earned income exclusion and/or foreign housing deduction** from federal form 2555 or form 2555EZ.

**o. Gains or losses from distressed sale transaction** If you need information, e-mail our tax specialists at [idr@iowa.gov](mailto:idr@iowa.gov).

**p. Health savings account deduction** from line 25 of the federal 1040.

**q. Injured veterans program, contributions to**

(do not put on IA Schedule A) An injured veteran's grant program is available under the Iowa Department of Veteran Affairs. Money appropriated for these grants will be given to veterans injured in a combat zone after September 11, 2001. The grants cannot exceed \$10,000 per injured veteran. The Department of Veteran Affairs may also receive money from any public or private source for purposes of providing grants to injured veterans.

A deduction is allowed for the amount paid by a taxpayer to the Department of Veteran Affairs for the purposes of providing grants to the injured veterans grant program. Do not claim these amounts on the Iowa Schedule A.

**r. Injured veterans program, grants from**

The amount of Department of Veteran Affairs grant money received by an injured veteran that is included in the veteran's federal adjusted gross income is not included in the veteran's Iowa net income.

**s. In-home health care:**

To the extent included in Iowa gross income, deduct any state Supplementary Assistance payments received for unskilled in-home health-related care services to a family member.

**t. Iowa Veterans Trust Fund:**

Income from the Iowa Veterans Trust Fund for the following items can be excluded from Iowa individual income tax:

- Travel expenses directly related to follow-up medical care for wounded veterans and their spouses.
- Unemployment assistance during a period of unemployment due to prolonged physical or mental illness or disability resulting from military service.

**u. Military exemptions, including active duty pay:**

See military information beginning on page 53.

**v. Net operating loss, Iowa:**

**Residents:** Enter any Iowa net operating loss carryforward from the prior year and attach the supporting schedule.

**Nonresidents:** Enter any Iowa-source net operating loss carryforward on your Schedule IA 126. Nonresidents do not enter net operating losses on the IA 1040 return.

See Iowa Net Operating Loss Worksheet for additional information on the carryback provision.

**w. Organ transplant expenses:**

A deduction in computing Iowa adjusted gross income is not allowed for taxpayers for unreimbursed expenses relating to a human organ transplant. The taxpayer, while living, who donates all or part of a designated human organ can claim a deduction for unreimbursed expenses such as travel expenses, lodging expenses, and lost wages.

The deduction is limited to \$10,000, and a taxpayer can only claim this deduction once. If a taxpayer claims this deduction for Iowa tax purposes, the taxpayer cannot also claim these same unreimbursed expenses as an itemized deduction for medical expenses on the Iowa return.

**x. Partnership income and/or S corporation income:**

Enter modifications that decrease the income reported on line 10 of the IA 1040.

**y. Segal Americorps Education Award Payments:**

Federal Segal Americorps education award payments are excluded from Iowa individual income tax.

**z. Speculative shell buildings:**

If you are the owner of a qualifying speculative shell building, enter the difference between the depreciation taken on this building on your federal return and the depreciation that you could take under the accelerated cost recovery system of the Internal Revenue Code if the building were classified as 15-year property.

Include a worksheet showing this calculation.

**aa. Student Loan Interest Deduction from federal return:**

Enter the same figure that is allowed on your federal 1040, line 33, or line 18 of federal 1040A.

**bb. Tuition and fees deduction:**

Enter the amount from the federal 1040 or federal 1040A.

**NOTE:** This deduction can only be taken on the Iowa return if the same deduction was taken for federal tax purposes - if the federal Lifetime Learning or American Opportunity credits were taken in lieu of the deduction, no deduction is allowed on the IA1040 even though those credits are not allowed for Iowa purposes.

The taxpayer can also choose to make an adjustment on the 2011 tax year return for Iowa's coupling with the federal Tuition and Fees Deduction for 2010. The taxpayer has the option to amend 2010 or adjust 2011.

### **cc. Victim compensation awards (SF 70)**

To the extent included in federal adjusted gross income, the following items can be excluded from Iowa adjusted gross income for individual income tax:

- Amounts of victim compensation awards paid under the victim compensation program administered by the Department of Justice under Iowa Code section 915.81
- Amounts of victim restitution payments received pursuant to Iowa Code chapters 910 and 915
- Amounts of damages awarded by a court, and received by a taxpayer, in a civil action filed by the victim against an offender

### **dd. Vietnam veterans bonus (SF 578)**

A Vietnam Conflict Veterans Bonus fund is established under the Iowa Department of Veterans Affairs.

This bonus is available for persons who served on active duty in the United States armed forces from July 1, 1958, through May 31, 1975.

Eligible persons may receive:

- Active duty in the Vietnam service area during the specified period: \$17.50 for each month, not to exceed \$500.
- Persons who served on active duty during the specified period but not in the Vietnam service area: \$12.50 per month, not to exceed \$300.

The maximum compensation a person can receive under this bill must be reduced by the amount of any Vietnam veterans bonus received by that person for service prior to July 1, 1958. The amount of bonus received by a Vietnam veteran that is included in the veteran's federal adjusted gross income is not included in the veteran's Iowa net income.

### **ee. Wages paid to certain individuals:**

If you operate a business, you may qualify for an additional deduction of 65% of the wages paid in the first 12 months up to a maximum deduction of \$20,000 per qualifying new employee. This deduction is in addition to the wage deduction you were allowed on federal Schedule C. To qualify, the new employee(s) must be disabled or an ex-offender on parole, probation, or in a work release program. All types of businesses may qualify for this deduction for hiring qualifying ex-offenders. However, the deduction for hiring qualifying persons with disabilities is restricted to certain small businesses.

Further information is available in the following online publications:

- Benefit for hiring ex-offenders
- Benefit for hiring persons with disabilities

### **ff. Work Opportunity Credit:**

If you claimed a Work Opportunity Credit on your federal income tax return, enter the amount here.

### **gg. Other Federal Adjustments:**

Other Federal Adjustments prior to the calculation of federal 1040 line 38 (federal AGI) not already taken on the IA 1040.

### **Married Separate Filers:**

- When the adjustment is attributable to a specific spouse, it is taken by that spouse.
- When the adjustment is not attributable to any one spouse, it must be prorated based on the net income amounts on line 26. Calculate through line 26 as if the adjustment in question were excluded.
- If the adjustment is attributable to a dependent, such as the tuition and fees deduction, it is prorated based on net income before the adjustment in question.

## **25. TOTAL ADJUSTMENTS.**

Add lines 16 through 24.

## **26. NET INCOME.**

Subtract line 25 from line 15 and enter the result.

### **QUALIFICATIONS FOR EXEMPTION FROM TAX**

If you qualify for the low income exemption as explained below, enter the words "low income exemption" in the area to the left of your net income figure on line 26. Enter zero on line 56 and complete the remainder of the return.

**Even if you owe no tax, you must file an income tax return to get a refund** of any refundable Iowa credits or any Iowa tax withheld. If you are exempt from tax, you may want to change your IA W-4 form with your employer to eliminate state withholding from your wages.

**The following income must be included** when determining if you are eligible for the \$9,000 exemption or the \$13,500 exemption (\$24,000 or \$32,000 if 65 or older on 12/31/11).

- a. The incomes of both husband and wife must be combined to determine if you meet this exemption from tax.
- b. The amount of any pension exclusion that is taken on line 21 of the IA 1040.
- c. Any Social Security Phase-out amount from line 12 of the Social Security Worksheet.
- d. Any amount of lump-sum distribution separately taxed on federal form 4972.
- e. Any net operating loss carryover.



### **FILING STATUS 1, SINGLE:**

If you are using filing status 1 (single), you are exempt from Iowa tax if you meet either of the following conditions:

- a. Your net income from all sources, line 26, is \$9,000 or less and you are not claimed as a dependent on another person's Iowa return. (\$24,000 if you are 65 or older on 12/31/11)
- b. Your net income from all sources, line 26, is less than \$5,000 and you are claimed as a dependent on another person's Iowa return.

### **ALL OTHER FILING STATUSES:**

If you are filing married filing jointly, married filing separately on a combined return, head of household, or qualifying widow(er), you are exempt from Iowa tax if you meet the following condition:

- a. Your net income from all sources, line 26, is \$13,500 or less and you are not claimed as a dependent on another person's Iowa return. (\$32,000 if you or your spouse is 65 or older on 12/31/11)

### **Nonresidents and Part-year Residents**

In addition to the exemption provisions above, if you were a nonresident or part-year resident and had net income from Iowa sources of less than \$1,000 (see note below), you are exempt from Iowa tax. To review instructions for "Iowa-source income," see the instructions for lines 1-26 of the IA 126. If you had Iowa tax withheld and are requesting a refund, or choose to file an Iowa return even though you aren't required to do so, you must complete the entire IA 1040 and the entire IA 126.

**NOTE:** If you were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax (even if Iowa-source income is less than \$1,000), you are required to file an Iowa return reporting the lump-sum and/or minimum tax even if you have no regular Iowa income tax liability.

**Illinois residents:** See reciprocal agreement information.

**Military spouses** please see the information on the Military Spouses Residency Relief Act.

### **Married Separate Filers:**

Married taxpayers filing married filing separately on a combined return or married filing separate returns

must use the combined income of both spouses in determining eligibility for exemption from tax.

If either spouse has a net operating loss that is carried back or forward, then the other spouse cannot use the low income exemption. If the spouse with the net operating loss chooses not to carry the loss back or forward, then the other can claim the low income exemption. **A statement must be included with the return saying that the spouse with the net operating loss will not carry it back or forward.**

## **STEP 6 FEDERAL TAX ADDITION AND DEDUCTION**

### **27. FEDERAL INCOME TAX REFUND / OVERPAYMENT RECEIVED IN 2011.**

**If you received a refund of federal income tax during 2011**, you must report the amount on this line. It must be reported even if you used the standard deduction on the prior year's Iowa return. The federal refund must be included on this line because you benefited from being able to deduct federal taxes on the prior year's Iowa return, which reduced your Iowa taxable income for that year. The amount reported on this line should not exceed the total amount of any federal tax deduction taken on the prior year(s) Iowa return.

#### **Include the following:**

- The refund you received from your 2010 federal tax return  
To find the amount you received, check your records or call the IRS at 1-800-829-1040. This information is not available from the Iowa Department of Revenue.
- Any refunds received in 2011 for other years that were amended or filed late
- Any portion of the federal refund received due to the Motor Fuel Tax Credit must be reported on the Iowa return.

The amount of any federal First-time Homebuyer Credit repayment. For example, if a taxpayer received a \$2,000 refund on their 2010 federal return and repaid \$500 of the homebuyer credit, they must enter \$2,500 on line 27 of the 2011 Iowa return.

**If you chose to have any part of an overpayment of federal income tax credited to estimated tax payments for 2011**, the amount should be claimed as 2011 estimated tax paid on line 32. The total federal overpayment must also be reported on line 27.

**Do NOT include the federal refund in the following situations:**

- Do not include any part of the refund received from Earned Income Tax Credit, Additional Child Tax Credit, First-time Homebuyer Credit, Existing Homebuyer Credit, Refundable Education Credit, Adoption Tax Credit, or Making Work Pay and Government Retiree Credits.
- You are filing an Iowa return for 2011 for the first time because you moved into Iowa during the year. A refund of federal tax received in 2011 is not reported if the tax was not deducted from Iowa income in a prior year.
- You were a nonresident for the tax year of the refund and were not required to file an Iowa return for that year.

The refund you received was from a year in which you did not take a deduction for the payment of federal tax because your income was less than the minimum amount for paying Iowa tax or your tax for that year was calculated using the alternate tax computation.

#### **Married Separate Filers:**

If the refund received in 2011 was from a jointly-filed federal return, it must be divided between spouses in the ratio of the spouses' net incomes in the year for which the refund was issued.

Example: A 2010 federal refund received in 2011 would be prorated using the spouses' net incomes from the 2010 Iowa return.

NOTE: For purposes of reporting on line 27, the refund must be prorated in this manner even if the refund itself was divided between spouses in some other way, either by mutual agreement or other requirement.

#### **Example of how to prorate:**

Your income is \$10,500

Spouse's income is \$15,500

Total: \$26,000

Federal refund: \$1,200

Divide your income by total income: \$10,500 divided by \$26,000 = 40%

The spouse's income is, therefore, 60% of their combined income.

In this example, line 27 is \$720 (60%) of the federal refund for the spouse, and \$480 (40%) of the federal refund for you.

## **28. SELF-EMPLOYMENT / HOUSEHOLD EMPLOYMENT TAXES.**

- Federal self-employment tax is not allowed as a deduction for federal taxes in this step of the Iowa return (see line 17 for partial deductibility as an

adjustment to income). If any part of the federal tax payments on lines 31, 32, or 33 includes self-employment tax, then the self-employment tax must be added back on line 28.

- Federal household employment taxes are not allowed as a deduction for federal taxes on the Iowa return. If any part of the federal tax payments on lines 31, 32, or 33 include federal household employment taxes, then the federal household employment taxes must be added back on line 28.

It is acceptable to report on line 28 either the current year's self-employment/household employment tax or the prior year's, as long as the reporting method is consistent from one year to the next.

**Married Separate Filers:** Each spouse must claim his or her own federal self-employment tax. The household employment taxes are divided between spouses in the ratio of their respective net incomes.

## **29. ADDITION FOR FEDERAL TAXES.**

Add lines 27 and 28 and enter the total. If no federal refund or self-employment / household employment tax is reportable to Iowa, enter zero.

## **30. TOTAL.**

Add lines 26 and 29.

## **31. FEDERAL TAX WITHHELD.**

Enter the amount(s) listed in the box labeled "Federal income tax withheld" on the W-2 or 1099 form(s) that you received.

**Married Separate Filers:** Each spouse may claim only his or her own federal income tax withheld.

## **32. FEDERAL ESTIMATED TAX PAYMENTS MADE IN 2011.**

Enter the federal estimated income tax payments made in 2011. Include any overpayment applied from your 2010 federal income tax. The overpayment must also be included on line 27. You can deduct only the federal estimated income tax payments made during calendar year 2011.

For example, include a federal estimated income tax payment for 2010 paid in January 2011, but not an estimated tax payment for 2011 paid in January 2012.

**Married Separate Filers:** All federal estimated tax payments made in 2011 are divided between spouses in the same ratio as their incomes not subject to federal withholding for the 2011 tax year.

## **33. ADDITIONAL FEDERAL TAX PAID IN 2011.**

**A.** Enter the amount of additional federal income tax paid during 2011 for tax year 2010 and any other years before 2010. The amount of additional federal income tax paid is deductible only if Iowa income tax returns were required to be filed for the year for which the additional federal income tax was paid. **Include only the actual federal tax payments made in 2011, but DO NOT include the following:**

- penalties
- interest
- excise tax on early withdrawal of qualified plans
- federal First-time Homebuyer Credit repayment

**REFUNDABLE CREDITS** on the federal 1040 may be included on IA 1040, line 33, to the extent federal income tax was paid by applying the federal refundable credits, such as:

- Earned Income Tax Credit
- Additional Child Tax Credit
- Others

Any refundable federal credits that reduce federal income tax liability are allowed as a federal tax deduction — up to the amount of the federal tax paid by the refundable credits — on the Iowa return.

In determining the order of applying the refundable federal tax credits, the federal Earned Income Tax Credit (EITC) should be applied first, followed by the Additional Child Tax Credit, and then any other refundable federal credits.

**EXAMPLE:**

The following example illustrates how a refundable federal Earned Income Tax Credit (EITC) on a timely-filed 2010 federal 1040 may affect line 33 of the 2011 Iowa return.

**FIRST:** Federal Tax Liability For Tax Year 2010

Taxpayer's Federal Tax Liability for Tax Year 2010:	\$ 2,000
Subtract Taxpayer's Federal Withholding:	<u>— 500</u>
Taxpayer's Unpaid Federal Tax Liability for Tax Year 2010:	1,500

**SECOND:** Apply EITC To Unpaid Federal Income Tax Balance

Federal EITC Calculated by Taxpayer for Tax Year 2010:	\$ 2,500
--	----------

Subtract the \$1,500 Federal in Federal Income Tax the Taxpayer Still Owes for Tax Year 2010: — 1,500

Taxpayer Will Receive a Federal Refund of EITC: \$ 1,000

**THIRD:** Line 33 On Iowa Return For 2011

33. Additional federal tax paid in 2011 for Tax Year 2010 \$ 1,500

The \$1,500 federal tax liability paid by EITC for Tax Year 2010 is deductible on the 2011 Iowa return.

**Married Separate Filers:** The additional federal tax paid must be divided between the spouses in the ratio of the spouses' Iowa net incomes for the prior years for which they paid additional federal income tax.

**B.** FICA payments in excess of \$4,485.60 for Social Security tax for each person and the Motor Fuel Tax Credit from the 2011 federal return can be deducted as a federal tax payment on line 33. Any excess FICA tax and federal fuel tax refunded to you must be added back as a federal tax refund in the year received. If you are self-employed, any self-employment tax you pay cannot cause an excess FICA payment.

**34. DEDUCTION FOR FEDERAL TAXES.**

Add lines 31, 32, and 33.

**35. BALANCE.**

Subtract the amount on line 34 from line 30 and enter here and on line 36, side 2.

**STEP 7 TAXABLE INCOME**

**(Itemized or Standard Deduction)**

**36. BALANCE.**

Enter the amount(s) from line 35 on line 36. Complete applicable lines 37 through 41, if you are itemizing deductions. Skip lines 37 through 40 and go to line 41 if you are taking the standard deduction.

You may itemize deductions or claim the Iowa standard deduction, whichever is larger. You may itemize deductions on your Iowa return even if you did not itemize deductions on your federal return.

**ITEMIZED DEDUCTION**

If you itemize, complete applicable lines 37-40, check the itemized box on line 41 and enter your total itemized deduction. Attach your Schedule A to your return.

**STANDARD DEDUCTION**

If you use the Iowa standard deduction check the standard box on line 41 and enter your standard deduction.

\$1,830 for filing statuses 1, 3, and 4

\$4,500 for filing statuses 2, 5, and 6

**Married Separate Filers:** If one spouse itemizes deductions, then both spouses must itemize deductions, even if separate Iowa returns are filed.

### 37. TOTAL ITEMIZED DEDUCTIONS FROM FEDERAL SCHEDULE A.

#### GENERAL INSTRUCTIONS

Iowa follows federal guidelines for Schedule A itemized deductions with certain exceptions.

To complete either the federal or Iowa Schedule A, refer to the federal 1040 instruction booklet.

Include your Iowa Schedule A or federal Schedule A with your return.

Taxpayers with federal bonus depreciation must complete the Iowa Schedule A.

#### MEDICAL, DENTAL, AND INSURANCE EXPENSES

##### Health insurance premiums, line 1:

100% of the amount paid for health insurance premiums is deductible on line 18 of the IA 1040. It may be to your advantage to take this deduction on line 18 instead of Schedule A. Schedule A may not contain any health insurance premiums which were used as a deduction on line 18.

##### Schedule A, line 2:

Certain itemized deductions are allowed only to the extent that the deductions exceed a percentage of federal adjusted gross income. These include medical and dental expenses that exceed 7.5% of federal adjusted gross income. The federal adjusted gross income used to determine these deductions is the taxpayer's federal adjusted gross income plus any bonus depreciation/section 179 adjustment from line 14 of the IA 1040.

#### VEHICLE REGISTRATION FEE DEDUCTION AND WORKSHEET

If you itemize deductions, a portion of the automobile or multipurpose vehicle annual registration fee you paid in 2011 may be deducted as personal property tax on your Iowa Schedule A, line 6, and federal Schedule A, line 8.

This deduction is for annual registration fees paid based on the value of qualifying automobiles and multipurpose vehicles. Multipurpose vehicles are defined as motor vehicles designed to carry not more than 10 people, and constructed either on a truck chassis or with special features for occasional off-road operation [Iowa Code section 321.1(44)].

Annual registration fees on the following vehicles are not deductible: pickups (model year 2009 or older),

motor trucks, work vans, ambulances, hearses, non-passenger-carrying vans, campers, motorcycles, or motor bikes.

##### Newer Vehicles:

Use the following worksheet to calculate the deductible amount of annual registration fees paid in 2011 for qualifying automobiles (model year 2001 or newer), pickups (model year 2010 or newer),\* and multipurpose vehicles (model year 1993 or newer).

\* For tax years 2008 and earlier, pickup truck registration fees could not be taken as an itemized deduction, because the fees were structured as a flat fee and were not based on value. However, beginning with the 2009 tax year there was a change in the registration fee structure for pickups.

More specifically, only 2010 and newer trucks that weigh in at 10,000 pounds or less when empty are registered based on weight, list price, and model year. All other trucks are still subject to a registration fee based on weight. Consequently, certain 2010 model year and newer trucks may use the Vehicle Registration Deduction Worksheet.

#### Vehicle Registration Deduction Worksheet

1. Enter the actual registration fee paid. .... **1.** \_\_\_\_\_
2. Take the weight of your automobile and divide it by 250. The weight is found on your automobile registration certificate. .... **2.** \_\_\_\_\_
3. Subtract line 2 from line 1. This is the deductible amount for line 37. .... **3.** \_\_\_\_\_

#### EXAMPLE

Lola purchased an automobile from Jennifer. The actual fee Lola paid to register the automobile at the courthouse was \$150. The weight of the automobile is 3,000 pounds. The deductible amount is calculated as follows:

- |   |           |            |
|---|-----------|------------|
| 1. Enter the actual registration fee paid. ....   | <b>1.</b> | <b>150</b> |
| 2. Take the weight of your automobile and divide it by 250. The weight is found on your automobile registration certificate. .... | <b>2.</b> | <b>12</b>  |
| 3. Subtract line 2 from line 1. This is the deductible amount. ....   | <b>3.</b> | <b>138</b> |

##### Older Vehicles:

For qualifying automobiles (model year 2000 or older) and multipurpose vehicles (model year 1992 or older)



the deductible amount is 60% of the annual registration fees paid in 2011.

## **QUALIFIED MORTGAGE INSURANCE PREMIUMS**

Line 11 of the Iowa Schedule A has the same deduction for qualified mortgage insurance premiums as taken on the federal Schedule A.

## **JOB EXPENSES AND MISC. DEDUCTIONS**

Certain job expenses and miscellaneous deductions are allowed to the extent the deductions are greater than 2% of the taxpayer's federal adjusted gross income.

The federal adjusted gross income used to determine these deductions is the taxpayer's federal adjusted gross income plus any bonus depreciation/section 179 adjustment from line 14 of the IA 1040.

## **STATE SALES/USE TAX**

The itemized deduction for state sales and use tax is allowed on the Iowa Schedule A.

For Iowa purposes, the itemized deduction for state sales and use tax paid is allowed only if the taxpayer claimed an itemized deduction for state sales and use tax paid on the Federal return. If a taxpayer claimed state income taxes as an itemized deduction on the Federal return, or claimed the standard deduction on the Federal return, the taxpayer cannot claim an itemized deduction for state sales and use tax paid on the Iowa return.

## **EXCEPTIONS TO FEDERAL SCHEDULE A**

**Federal bonus depreciation.** If itemizing, taxpayers that have adjustments for federal bonus depreciation on form IA 4562A must complete the Iowa Schedule A rather than using a copy of the federal Schedule A.

**Health insurance premiums.** 100% of the amount paid for health insurance premiums is deductible on line 18 of the IA 1040. It may be to your advantage to take this deduction on line 18 instead of Schedule A. Schedule A may not contain any health insurance premiums which were used as a deduction on line 18.

**Injured Veterans Grant Program Contributions.** These contributions do not qualify as itemized deductions.

## **Charitable Conservation Contribution Tax**

**Credit.** Do not include as an itemized deduction any contributions for which a credit is claimed on line

53 of the IA 1040.

**Mortgage Interest Credit Deduction.** Taxpayers with the mortgage interest credit can claim on their Iowa return a deduction on line 9b of Schedule A for all mortgage interest paid in the tax year and not just the mortgage interest that was deducted on the federal Schedule A.

**School Tuition Organization Contributions.** Do not include as an itemized deduction any contributions for which a credit is claimed on line 53 of the IA 1040.

**Endow Iowa Tax Credit Contributions.** Do not include as an itemized deduction any contributions for which a credit is claimed on line 53 of IA 1040.

## **Married Separate Filers:**

If you used Iowa Schedule A, enter the totals from line 30 and line 31, Iowa Schedule A, in Columns A and B on line 39 of the IA 1040.

If you used federal Schedule A, you should prorate your itemized deductions between you and your spouse in the ratio of each spouse's net income on line 26, IA 1040 to the total net income of both spouses. (However, this allocation of itemized deductions should be done after any Iowa income tax is subtracted from the total itemized deductions claimed on federal Schedule A.)

Line 38 and line 40 of the IA 1040 should also be divided between spouses in the ratio of their respective net incomes.

## **38. IOWA STATE INCOME TAX.**

If your total itemized deductions from federal Schedule A on line 37 includes Iowa state income tax, enter the amount of Iowa state income tax. The amount you enter on this line should not include local income surtaxes. Local income surtaxes are the School District Surtax and the Emergency Medical Services Surtax shown on line 55 of the IA 1040.

If the itemized deduction for state sales and use tax paid is taken on the federal schedule A, do not report that amount on this line.

**Married Separate Filers:** Iowa state income tax deduction must be divided between spouses in the ratio of their respective net incomes. See IA 1040, line 26.

### 39. BALANCE.

Subtract line 38 from line 37 if your calculations are from the federal Schedule A.

If your calculations are from the Iowa Schedule A, enter the amount of the itemized deductions from the Iowa Schedule A.

### 40. OTHER DEDUCTIONS.

Enter the total of all other deductions:

You cannot take deductions on this line if you take the standard deduction on your Iowa return.

#### a. Expenses Incurred for Care of a Disabled Relative:

Expenses, not to exceed \$5,000, incurred in caring for a disabled relative in your home may be deducted. The expenses which may be claimed are those for the care of a person who is your grandchild, child, parent, or grandparent. The disabled person must be unable, by reason of physical or mental disability, to live independently and must be receiving or be eligible to receive medical assistance benefits under Title XIX of the U.S. Social Security Act.

An itemized schedule of expenses must be included with the return and may include items such as food, clothing, medical expenses not otherwise deductible, and transportation for medical reasons (see IRS guidelines for medical mileage rate). Expenses not directly attributable to the care of the relative, such as rent, mortgage payments, interest, utilities, house insurance, and taxes cannot be included. Only expenses which are not reimbursed may be claimed.

A statement from a qualified physician certifying that the person with the disability is unable to live independently must be submitted with the return the first year a deduction is taken and every third year thereafter.

**Married Separate Filers:** The total deduction claimed by both spouses for each relative with a disability may not exceed \$5,000. This deduction must be divided between spouses in the ratio of their respective net incomes. See IA 1040, line 26.

#### b. Adoption Expenses:

If you adopted a child during the tax year, you may be eligible for an additional itemized deduction for a portion of the adoption expenses paid in 2011. **This deduction is taken in the year that the expenses are paid even if the child is not placed in your home during that year or if the adoption does not occur.**

A deduction is allowable for expenses including medical costs relating to the child's birth, any

necessary fees, and all other costs connected with the adoption procedure. Include a separate schedule listing the adoption expenses. Subtract 3% of your total Iowa net income entered on line 26 from the total of qualifying adoption expense. If married, 3% of the combined net income must be subtracted. Only the amount which exceeds 3% of your total Iowa net income may be deducted.

**Married Separate Filers:** This deduction must be divided between spouses in the ratio of their respective net incomes. See IA 1040, line 26.

#### c. Mileage Deduction Charitable Purposes.

Iowa allows you an *additional* deduction for automobile mileage driven for charitable organizations. Calculate the deduction as follows:

1. Number of miles x 39¢/mile
2. Less charitable mileage deduction entered on federal or Iowa Schedule A
3. Equals additional mileage deduction for charitable purposes.

**Married Separate Filers:** These deductions must be divided between spouses in the ratio of their respective net incomes. See IA 1040, line 26.

### 41. ITEMIZED OR STANDARD DEDUCTION.

Mark the correct box to show the deduction method you are using, itemized or standard, and enter the applicable amount as described below.

**ITEMIZED:** Add lines 39-40 and enter the total on line 41. This is your total itemized deduction.

**STANDARD:** For tax year 2011, the Iowa standard deduction is:

- If filing status 1, enter the lesser of \$1,830 or the amount on line 36.
- If filing status 3 or 4, each spouse enters the lesser of \$1,830 or the amount on line 36.
- If filing status 2, 5, or 6 is marked, enter the lesser of \$4,500 or the amount on line 36.

**Married Separate Filers:** If one spouse itemizes deductions, then both spouses must itemize deductions, even if separate Iowa returns are filed.

### 42. TAXABLE INCOME.

Subtract line 41 from line 36 and enter the difference. If line 41 is greater than line 36, enter zero.

### STEP 8 TAX, CREDITS AND CHECKOFF CONTRIBUTIONS (TAX CALCULATION)

### 43. TAX OR ALTERNATE TAX.

**Who CAN use the alternate tax calculation?**

**Taxpayers using filing statuses 2, 3, 4, 5, and 6 without net operating loss:**

If the combination of your net income(s) from line 26 PLUS any pension exclusion taken on line 21 of the IA 1040 and any Social Security Phase-out taken on line 13 of the Social Security Worksheet exceeds \$13,500 (\$32,000 if you or your spouse is 65 or older on 12/31/11)

**Married taxpayers using filing statuses 2, 3, or 4 with net operating loss** when one spouse has a net operating loss and chooses **not** to carry it back or forward. A statement that the taxpayer will not carry forward or carry back the net operating loss must be included with the return.

**Why use the alternate tax calculation?**

**You may owe less tax** by completing the worksheet below to compute your tax liability. Enter this alternate tax on line 43 if it is less than the tax from the tax table.

**Who CANNOT use the alternate tax calculation?**

- Taxpayers using filing status 1
- Taxpayers who file status 4 and do not provide the other spouse's income in Step 2 of the IA 1040
- Married taxpayers using filing statuses 2, 3, or 4 with net operating loss when one spouse has a net operating loss and chooses to carry it back or forward

**Tax Calculation Procedure**

**First**, determine tax from:

- tax tables, or
- formula at the end of the tax tables, or
- tax rate schedule

If the taxable income on line 42 (column A or column B):

- is less than \$95,450, use the tax tables
- is more than \$95,450, use the formula at the end of the tax tables or the tax rate schedule

**Second**, compute alternate tax, which may reduce tax liability.

Compare the tax calculated using one of the methods shown above to the alternate tax calculated below. Enter the smaller amount on line 43.

**ALTERNATE TAX WORKSHEET**

1. Add the total net income(s) from line 26 and pension exclusion from line 21 and Social Security Phase-out taken on line 12 of the Social Security Worksheet of the IA 1040, and enter here. Filing statuses 3 or 4 enter combined totals of both

- spouses. .... 1. \_\_\_\_\_
2. Enter \$13,500 (\$32,000 if you or your spouse is 65 or older on 12/31/11). ... 2. \_\_\_\_\_
3. Income subject to alternate tax.  
Subtract line 2 from line 1. .... 3. \_\_\_\_\_
4. Multiply line 3 by 8.98% (.0898). .... 4. \_\_\_\_\_
5. Using the tax tables, determine the tax on the taxable income from line 42 of the IA 1040. Status 3 and 4 filers look up the tax separately, combine and enter total here. .... 5. \_\_\_\_\_
6. Compare the amounts on line 4 and line 5. Enter the smaller amount here and on line 43, IA 1040. .... 6. \_\_\_\_\_

**Married Separate Filers:** (including status 4):

**If you are using the tax tables, the formula at the end of the tax tables, or the tax rate schedule:**

Enter the tax for line 42, column A, on line 43, column A.

If filing status 3, also enter the tax for line 42, column B, on line 43, column B.

**If you are using the alternate tax:**

Use the combined net incomes of both spouses to compute the alternate tax.

Prorate the alternate tax between spouses in the ratio of the net income of each spouse to the combined net income of both spouses.

"Net income" for purposes of this proration is the amount from line 26, plus any pension exclusion from line 21 and Social Security Phase-out taken on line 12 of the Social Security Worksheet.

**Examples** are in the online version of the expanded instructions.

**44. IOWA LUMP-SUM TAX.**

A lump-sum distribution occurs when, in one tax year, you receive the total balance from the pension or profit-sharing plan of an employer due to termination of employment, termination of the plan, or death of the employee.

Iowa lump-sum tax applies only if IRS form 4972 was used to compute the federal tax on any portion of the lump-sum distribution. **(If there is no federal lump-sum tax, then there is no Iowa lump-sum tax.)**

**Iowa Residents:** Enter 25% of the federal tax from IRS form 4972 on line 44 of the IA 1040. Include federal form 4972.

**Part-year Residents:** If a lump-sum distribution reported on federal form 4972 was received while an

Iowa resident, 25% of the federal tax from form 4972 must be entered on line 44. Part-year residents who receive a lump-sum distribution while not an Iowa resident are not subject to Iowa lump-sum tax on that distribution. A copy of the federal form 4972 must be included.

**Nonresidents:** Nonresidents receiving lump-sum distributions are not subject to Iowa lump-sum tax.

**Married Separate Filers** (including status 4): Lump-sum tax is reported by the spouse who received the distribution.

#### 45. IOWA MINIMUM TAX.

Enter the amount from line 33 of the IA6251. The Iowa Minimum Tax is imposed, for the most part, on the same tax preference items and adjustments on which federal minimum tax is imposed. However, you may be subject to Iowa Minimum Tax even if you have no liability for federal minimum tax. All taxpayers with Iowa minimum tax are to include a copy of the IA 6251 with their IA 1040.

If you had tax preference items and adjustments in 2011, see form IA 6251 for further information.

**Nonresidents and Part-year Residents:** If you have Iowa-source tax preferences or adjustments, you may be subject to Iowa Minimum Tax. See form IA 6251.

**Married Separate Filers** (including status 4): Each spouse that had tax preference items and adjustments must complete their own IA 6251.

#### 46. TOTAL TAX.

Add lines 43, 44, and 45.

**Taxpayers who have had a distressed sale in 2011** and have included the gain in net income may be eligible to limit their tax to their net worth immediately prior to the distressed sale. If you qualify, limit the amount on line 46 to your net worth before the distressed sale and include an Iowa Income Tax Balance Sheet/Statement of Net Worth (form IA 6251B).

#### 47. TOTAL EXEMPTION CREDIT AMOUNTS.

Enter the total amount of exemption credits from Step 3.

#### 48. TUITION AND TEXTBOOK CREDIT (K-12 ONLY).

Taxpayers who have one or more dependents attending Kindergarten through 12th grade in an accredited Iowa school may take a credit for each

dependent for amounts paid for tuition and textbooks. Dependents must have attended a school in Iowa that is accredited under section 256.11, not operated for a profit and adheres to the provisions of the U.S. Civil Rights Act of 1964.

The credit amount is 25% of the first \$1,000 paid for each dependent for tuition and textbooks.

**In the case of divorced or separated parents**, only the spouse claiming the dependent can claim the amounts paid by that spouse for tuition and textbooks for that dependent.

**Expenses for textbooks or other items for home schooling**, tutoring, or schooling outside an accredited school do not qualify for the credit.

**“Tuition”** means any charges for the expense of personnel, buildings, equipment, and materials other than textbooks, and other expenses that relate to the teaching of only those subjects legally and commonly taught in Iowa’s public elementary and secondary schools.

**“Textbooks”** means books and other instructional materials used in teaching those same subjects. This includes fees, books, and materials for extracurricular activities.

**Examples of extracurricular activities:** sporting events, speech activities, musical or dramatic events, driver’s education (if paid to the K-12 school), awards banquets, homecoming, prom (clothing does not qualify), and other school-related social events.

**The cost of the following items are eligible for the credit:**

- **Books:** books and other instructional materials used in teaching subjects legally and commonly taught in Iowa’s public elementary and secondary schools, including those needed for extracurricular activities
- **Clothing:** “non-street” costumes for a play or special clothing for a concert not suitable for everyday wear
- **Driver’s Education:** only if paid to the K-12 school
- **Dues, Fees and Admissions:** includes those paid for extracurricular activities such as activity fees; booster club dues; fees for track and cross-country; activity ticket or admission for high school athletic events; fees for a physical education event such as roller skating
- **Materials:** includes materials for extracurricular activities, such as sporting events, speech activities, musical or dramatic events, awards banquets, homecoming, prom, and other school-related social events



- **Music:** rental of musical instruments for school or band; music/instrument lessons at a school; sheet music used in a school; valve oil; cork grease; music books and reeds used in school bands or orchestras
- **Shop class and mechanics class:** cost of required basic materials
- **Shoes:** football, soccer and golf shoes; cleats for football shoes; track spike shoes
- **Travel:** non-travel fees for field trips if the trip is during school hours
- **Tuition:** the school must be accredited; amounts paid are not allowed if they relate to teaching of religious tenets or doctrines of worship
- **Uniforms:** band, hockey, and football uniforms

The cost of the following items are NOT eligible for the credit:

- **Books:** yearbooks
- **Clothing:** clothes which can be used for streetwear, such as T-shirts for extracurricular events such as track and science; clothing for a play or concert that is suitable for everyday wear; prom dresses and tuxedos
- **Dues, Fees and Admissions:** sports-related socials; special education programs like career conferences; special testing like SAT, PSAT, and Iowa talent search tests
- **Music:** purchase of musical instruments; cost of music lessons outside of school; sheet music for private use
- **Religion:** Amounts paid are not allowed if they relate to teaching of religious tenets or doctrines of worship.
- **Shoes:** basketball shoes and other shoes suitable for everyday wear
- **Shop class and mechanics class:** optional expenditures for wood or materials or for repair of personal vehicles
- **Travel:** travel expenses for trips
- **Tuition:** any amount for food, lodging, clothing

Calculate the proper amount of expenses per dependent and multiply the amount – not to exceed \$1,000 – by 25% (.25).

Enter the total allowable credit on line 48. Retain records of your calculation, showing the name of each dependent,

school(s) attended, and an itemized list of qualifying expenses.

**Example:** Students Patty and Mark have qualifying expenses of \$1,400 and \$700 respectively. Their parents can take a credit of \$250 (25% of \$1,000 maximum) for Patty and \$175 (25% of \$700) for Mark, for a total credit of \$425.

**Married Separate Filers:** This credit must be taken by the spouse claiming the dependent. Any unused part of this credit cannot be used by the other spouse.

#### 49. TOTAL CREDITS.

Add lines 47 and 48.

#### 50. BALANCE.

Subtract the amount on line 49 from the amount on line 46. If less than zero, enter zero.

#### TAX REDUCING INCOME TO LESS THAN \$9,000 FOR TAXPAYERS USING FILING STATUS 1, SINGLE:

**Taxpayers using filing status 1 are not eligible** to use the alternate tax computation. However, a single taxpayer who is not claimed as a dependent on another person's Iowa return cannot have a tax figure on line 50 of the IA 1040 that would reduce the combination of net income from line 26 plus any net operating loss carryback or carryforward, any pension exclusion from line 21 of the IA1040 and any Social Security Phase-out taken on line 12 of the Social Security worksheet to less than \$9,000 (\$24,000 if you are 65 or older as of 12/31/11).

If subtracting line 50 from the total of lines 21, 26, any net operating loss carryback or carryforward, and Social Security Phase-out results in a difference of less than \$9,000 (\$24,000 if you are 65 or older as of 12/31/11), the entry on line 50 must be reduced as calculated on the following worksheet.

#### TAX REDUCTION WORKSHEET

##### 1. Add:

- (a) net income from line 26, IA 1040
- (b) pension exclusion from line 21, IA 1040
- (c) any net operating loss carryback or carryforward
- (d) Social Security Phase-out from line 12 of the Social Security Worksheet (line 13, IA 1040) ..... **1.** \_\_\_\_\_

- 2.** Write \$9,000 on this line if you are 64 or younger. Write \$24,000 if you are 65 or older as of 12/31/11 ..... **2.** \_\_\_\_\_

- 3.** Subtract line 2 from line 1. .... **3.** \_\_\_\_\_

- 4.** Enter the amount from line 50, IA 1040. .... **4.** \_\_\_\_\_

- 5.** Compare lines 3 and 4. Enter the smaller number here. If this number

is different than the one on line 50,  
IA 1040, substitute this number.  
Write “tax reduction” to the left  
of line 50. ....5. \_\_\_\_\_  
Examples are available on the online version of the  
expanded instructions.

## 51. CREDIT FOR NONRESIDENT OR PART-YEAR RESIDENT.

**Part-year residents and nonresidents:** Before you can complete the rest of the return, you will need to complete the IA 126.

Enter the amount of your nonresident/part-year resident tax credit from Schedule IA 126, line 33. A copy of Schedule IA 126 and a copy of your federal return must be included.

You may owe less tax by using filing status 3 or 4.

## 2011 INSTRUCTIONS FOR SCHEDULE IA 126

You will need to complete the IA 1040 Long Form lines 1 – 50 before you can complete the IA 126. The IA 1040 must be completed using all-source income. Nonresidents and part-year residents of Iowa will use the IA 126 to figure your Iowa source income. The final credit from this form is used as a credit to reduce total tax on your IA 1040.

**For part-year Iowa residents,** Iowa net income on the IA 126 includes all income received while living in Iowa plus any Iowa-source income received while a nonresident.

**For nonresidents,** Iowa net income on the IA 126 will include all income from Iowa sources. Complete lines 1-26 of the IA 126 using only income from Iowa sources. Enter the amount of credit from line 33, IA 126 on line 51, IA 1040.

**Married Separate Filers:** Divide your Iowa income between spouses using the instructions given for the corresponding line on the IA 1040 for married separate filers.

### 1. WAGES, SALARIES, TIPS, ETC.

**Part-year residents:** Include all W-2 income earned while an Iowa resident, even if it was earned in another state, and any income for services performed in Iowa while a nonresident of the state. If it was earned in another state, you may also need to fill out the IA 130 when you pay tax to the other state. You will need to check with that state for their filing requirements.

**Nonresidents:** Report only Iowa-source income. If the portion of employee compensation earned in Iowa by a nonresident is not reported separately, allocate the

compensation based upon the number of days worked in Iowa to total work days.

**NOTE:** As a result of federal legislation, the nonresident military taxpayer does not include military pay on line 1 of the IA 126 (nor is it reported on the IA 1040). In general, this applies to active duty military and does not include the National Guard or reserve personnel.

Military spouses please see the information on the Military Spouses Residency Relief Act.

### 2. TAXABLE INTEREST INCOME.

**Part-year residents:** Report all interest shown on the IA 1040 which accrued while an Iowa resident and any interest received while a nonresident which was derived from a trade, business, or profession carried on within Iowa.

**Nonresidents:** Report only the interest derived from an Iowa trade, business, or profession.

### 3. DIVIDEND INCOME.

**Part-year residents:** Report all dividends received while an Iowa resident and any dividends derived from an Iowa trade, business, or profession while a nonresident.

**Nonresidents:** Report the dividends derived from an Iowa trade, business, or profession.

### 4. ALIMONY RECEIVED.

**Part-year residents:** Report all alimony or separate maintenance payments received while an Iowa resident.

**Nonresidents:** Do not enter anything on this line.

### 5. BUSINESS INCOME OR (LOSS).

**Part-year residents:** Report all federal Schedule C or C-EZ income earned while an Iowa resident and any portion of business income or loss earned while a nonresident attributable to a business conducted in Iowa.

**Nonresidents:** Report the portion of business income or loss attributable to a business conducted in Iowa. Include a supporting schedule showing Iowa gross receipts divided by total gross receipts; multiply this ratio times the total net income from federal Schedule C or C-EZ. A sale is considered an Iowa sale if goods are delivered or shipped to a point within the state regardless of F.O.B. point.

### 6. CAPITAL GAIN OR (LOSS).

**Part-year residents:** Include 100% of the capital gains or losses from assets sold during the time they were Iowa residents. In addition, capital gains or losses from assets sold while a nonresident of Iowa

## 2011 INSTRUCTIONS FOR SCHEDULE IA 126 continued

should be reported on the basis of the instructions for nonresidents that follow.

**Nonresidents:** Include in Iowa income 100% of capital gains or losses from the following:

- a. Sales of real or tangible personal property if the property was located in Iowa at the time of the sale; or
- b. Sales of intangible personal property if the taxpayer's commercial domicile is in Iowa.

NOTE: You may have a gain here even if you have a net loss on the IA 1040.

### 7. OTHER GAINS OR (LOSSES).

**Part-year residents:** Report 100% of gains or losses from assets sold or exchanged while an Iowa resident and any gains or losses from federal form 4797 while a nonresident if the property was located in Iowa at the time of sale or exchange.

**Nonresidents:** Report any gains or losses from federal form 4797 if the property was located in Iowa.

NOTE: You may have a gain here even if you have a net loss on the IA 1040.

### 8. TAXABLE IRA DISTRIBUTIONS.

**Part-year residents:** Report any taxable IRA distributions received while an Iowa resident.

**Nonresidents:** Do not enter anything on this line.

### 9. TAXABLE PENSIONS AND ANNUITIES.

Pension income is taxable to the state you live in when you receive it.

**Part-year residents:** Report any pension and annuity income reported on line 9 of the IA 1040 which was received while an Iowa resident.

**Nonresidents:** Do not enter anything on this line.

### 10. RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, TRUSTS, ETC.

**Part-year residents:** Report all income shown on federal Schedule E which was earned or received while an Iowa resident and all rents and royalties from Iowa sources and partnerships or S corporation income earned or received while a nonresident.

**Nonresidents:** Report all rents and royalties from Iowa sources and all Iowa partnership or S corporation income. See instructions for allocation of business income on line 5 of this section.

### 11. FARM INCOME OR (LOSS).

**Part-year residents:** Report all net farm income earned or received while an Iowa resident. Also report all net income from Iowa farm activities while a

nonresident using the instructions for nonresidents that follow.

**Nonresidents:** Report the total net income from the Iowa farm activities. If farm activities were conducted both within and without Iowa, provide a separate schedule showing allocation of the income and expenses to Iowa.

### 12. UNEMPLOYMENT COMPENSATION.

**Part-year residents:** Report all unemployment benefits received while an Iowa resident and those benefits received the rest of the year that relate to past employment in Iowa.

**Nonresidents:** Report the unemployment benefits that relate to employment in Iowa. If the unemployment benefits relate to employment in Iowa and employment in another state, report the benefits to Iowa on the basis of the Iowa salaries and wages to the total salary and wages.

### 13. TAXABLE SOCIAL SECURITY BENEFITS.

**Part-year residents:** Report any Social Security income reported on line 13 of the IA 1040 which was received while an Iowa resident.

**Nonresidents:** Do not enter anything on this line.

### 14. OTHER INCOME.

**Part-year residents:** Report any income on line 14 of IA 1040 which was received while an Iowa resident or income from Iowa sources while a nonresident. This includes gambling income and the Bonus Depreciation/Section 179 Adjustment attributable to Iowa from the IA 4562A.

**Nonresidents:** Report all other taxable income from Iowa sources. This includes gambling income.

### 16. PAYMENTS TO AN IRA, KEOGH OR SEP.

**Part-year residents:** Deduct the payments made to an IRA, Keogh, or SEP plan while an Iowa resident.

**Nonresidents:** Deduct the payments made to an IRA, Keogh, or SEP plan in the ratio of Iowa earned income to total earned income.

### 17. DEDUCTIBLE PART OF SELF-EMPLOYMENT TAX.

**Part-year residents:** Deduct the portion of the self-employment tax that is attributable to the self-employment income earned while an Iowa resident.

**Nonresidents:** Deduct the portion of the amount allowed on your federal return in the ratio of your Iowa self-employment income to your total self-employment income.

## 2011 INSTRUCTIONS FOR SCHEDULE IA 126 continued

### 18. HEALTH INSURANCE DEDUCTION.

#### **Part-year residents:**

- a. Self-employed.** Enter 100% of the health insurance premiums paid by a self-employed individual while an Iowa resident.
- b. Deducted through wages.** Enter 100% of the health insurance premiums that were not withheld from your wages on a pretax basis while an Iowa resident.
- c. Paid direct by taxpayer.** Enter 100% of the health insurance premiums that you paid while an Iowa resident.

#### **Nonresidents:**

- a. Self-employed.** Enter 100% of the health insurance premiums paid by a self-employed individual by the ratio of Iowa self-employment income to total self-employment income.
- b. Deducted through wages.** Enter 100% of the health insurance premiums that were not withheld from your wages on a pretax basis by the ratio of Iowa wages to total wages.
- c. Paid direct by taxpayer.** Multiply the health insurance premiums that you paid by the ratio of your Iowa-source net income on line 26 of the IA 126 to total net income on line 26 of the IA 1040. For this net income calculation, do not include line 18, the health insurance deduction in the above-referenced net income amounts.

### 19. PENALTY ON EARLY WITHDRAWAL OF SAVINGS.

**Part-year residents:** Deduct the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity while an Iowa resident or what was derived from an Iowa trade, business or profession.

**Nonresidents:** Deduct the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity that was derived from an Iowa trade, business or profession.

### 20. ALIMONY PAID.

**Part-year residents:** Deduct alimony paid while an Iowa resident.

**Nonresidents:** Deduct alimony paid in the ratio of Iowa gross income to total gross income.

### 21. PENSION/RETIREMENT INCOME EXCLUSION.

**Part-year residents:** If you qualify for this exclusion on the IA 1040, you may exclude the amount of taxable retirement income received while an Iowa

resident, up to a maximum of \$6,000 (if filing status 1, 5, or 6) or \$12,000 (if filing status 2, 3, or 4).

**Nonresidents:** Iowa-source retirement income received by a nonresident is not taxable to Iowa. Therefore, you do not qualify to take this exclusion. Do not enter anything on this line.

### 22. MOVING EXPENSES.

**Part-year residents who moved into Iowa** can enter any moving expenses from line 22 of the IA 1040 that relate to the move to Iowa.

**Part-year residents moving out of Iowa** cannot take any deduction on this line.

**Nonresidents:** Do not enter anything on this line.

### 23. IOWA CAPITAL GAIN DEDUCTION FOR CERTAIN BUSINESS/FARM ASSETS ONLY.

Enter 100% of qualifying capital gains that are attributable to Iowa sources.

### 24. OTHER ADJUSTMENTS.

Deduct miscellaneous adjustments to income in the same ratio as the income to which the adjustment relates was allocated to Iowa.

### 26. IOWA NET INCOME.

Subtract line 25 from line 15 and enter the difference on this line. If line 26 is \$1,000 or more **or** you are subject to Iowa lump-sum or minimum tax, complete lines 27 through 33. If line 26 is less than \$1,000 **and** you are not subject to Iowa lump sum or minimum tax, you are not required to file an Iowa income tax return. However, if you had Iowa tax withheld and are requesting a refund, or choose to file an Iowa return even if you aren't required to do so, put 100% on line 29, complete the remainder of the schedule, and put the credit amount on line 51 of the IA 1040.

**Examples** of how to complete the IA 126 are available on our Web site in the online 2011 Expanded Instructions.

## 1040 INSTRUCTIONS continued

### 52. BALANCE.

Subtract the amount on line 51 from line 50. If less than or equal to zero, enter zero.

### 53. OTHER NONREFUNDABLE IOWA CREDITS.

Enter the total of the credits from Part I of the IA 148 Tax Credits Schedule.

**Form IA 148 Tax Credits Schedule must be completed.**

### **Agricultural Assets Transfer Credit:**



A tax credit for agricultural asset transfers from a taxpayer to beginning farmers is available for individual and corporation income taxpayers.

The tax credit is only allowed for agricultural assets that are subject to a lease or rental agreement. The lease must be for a term of at least two years, but not more than five years. The taxpayer must meet certain qualifications as established by rules adopted by the Iowa Agricultural Development Authority. The beginning farmer must be eligible to receive financial assistance as required by Code section 175.12.

The tax credit is based upon the gross amount paid to the taxpayer under the lease agreement by the beginning farmer. The tax credit equals 5% of the amount paid to the taxpayer under the agreement or, in the alternative, the tax credit equals 15% of the amount paid to the taxpayer from crops or animals sold under an agreement in which the payment is exclusively made from the sale of crops or animals.

A tax credit certificate will be issued by the Iowa Agricultural Development Authority. Any tax credit in excess of the tax liability can be carried forward for the following five years or until depleted, whichever is the earlier. A tax credit is not transferable to any other person other than the taxpayer's estate or trust upon the taxpayer's death. If the tax credit is issued to a partnership, limited liability company, S corporation, estate, or trust, the tax credit can be claimed by the individual based on the pro rata share of the income of the entity.

The lease or rental agreement may be terminated by either the taxpayer or the beginning farmer. If the Agricultural Development Authority determines that the taxpayer is not at fault for the termination, the Authority will not issue a tax credit certificate for subsequent years, but any prior tax credit certificates issued will be allowed. If the Authority determines that the taxpayer is at fault for the termination, any prior tax credit certificates issued will be disallowed, and the tax credits can be recaptured by the Department of Revenue.

**Effective July 1, 2009, for agricultural assets transfer agreements executed on or after that date:**

Agricultural assets transfer tax credits are capped at \$6 million for each state fiscal year. The credits will be issued on a first-come, first-served basis.

**Charitable Conservation Contribution Tax Credit:**

Effective for tax years beginning on or after January 1, 2008, a tax credit is available for individual income and corporation income tax equal to 50% of the fair market value of a qualified real property interest located in Iowa that is conveyed as an unconditional

charitable donation in perpetuity by a taxpayer to a qualified organization exclusively for conservation purposes.

The maximum amount of the credit is \$100,000. The amount of the contribution for which the tax credit is claimed is not deductible as an itemized deduction for Iowa income tax purposes.

The terms "conservation purpose," "qualified organization," and "qualified real property interest" mean the same as set forth in section 170(h) of the Internal Revenue Code. Any tax credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following 20 years or until depleted, whichever is the earlier.

**Economic Development Region Revolving Fund Tax Credit:**

This credit was repealed for tax years beginning on or after January 1, 2010, so only unused credits from a prior year may be claimed for 2011.

**Endow Iowa Tax Credit:**

The Endow Iowa Tax Credit is equal to 25% of a taxpayer's endowment gift to a qualified community foundation. The gift must be for a permanent endowment fund established to benefit a charitable cause in Iowa. The Iowa Economic Development Authority is responsible for registering and authorizing the tax credits, and controlling the distribution of these tax credits.

Any tax credit in excess of the taxpayer's tax liability can be carried forward for the following five years or until depleted, whichever occurs first. The amount of the contribution cannot be taken as an itemized deduction for charitable contributions for Iowa income tax purposes.

An individual can claim the credit for a gift made by a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed to the individual, based on the pro rata share of earnings from the pass-through entity.

422.11H, 422.33(14) and 422.60(7)

**Film Expenditure Tax Credit:**

A film qualified expenditure tax credit is available for individual income, corporation income, franchise, insurance premiums, and moneys and credits tax.

The tax credit is equal to 25% of a taxpayer's qualified expenditures in a film, television, or video project registered with the film office of the Iowa Economic Development Authority. The film, television, or video project must have expenditures of at least \$100,000 in Iowa to be registered with the film office.

A qualified expenditure is a payment to an Iowa resident or an Iowa-based business for the sale, rental, or furnishing of tangible personal property or for services directly related to the registered project. This includes, but is not limited to: aircraft, vehicles, equipment, material, supplies, accounting, animals and animal care, artistic and design services, delivery and pickup services, graphics, labor, personnel, lighting, makeup, hairdressing, film, music, photography, sound, video and related services, printing, research, site fees and rental, travel related to Iowa distant locations, trash removal and cleanup, and wardrobe.

A list of eligible expenditures is available from the film office of the Iowa Economic Development Authority.

Any credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever is earlier. If the taxpayer earning the credit is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed to an individual, the individual may claim the tax credit based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, estate, or trust.

After the project has been registered and the expenditures have been incurred, the Iowa Economic Development Authority will issue a tax credit certificate to the taxpayer containing the name, address, tax identification number, date of project completion, and the amount of the tax credit.

The tax credit certificate may be transferred to any person or entity. Within 90 days of transfer, the transferee will submit the transferred tax credit certificate to the Iowa Department of Revenue with a statement containing the amount of credit to be transferred. Within 30 days of receiving the transferred tax credit certificate, the Iowa Department of Revenue will issue a replacement tax credit certificate to the transferee.

Any consideration received for the transfer of the tax credit is not included in income for individual income, corporation income, or franchise tax purposes. Any consideration paid for the transfer of the tax credit will not be deducted from income for individual, corporation income, or franchise tax purposes.

**Effective July 1, 2009, for projects registered on or after that date:**

The services eligible for the tax credit include compensation for the principal director, principal

producer, and principal cast members, as long as the director, producers, and principal cast members are Iowa residents or Iowa-based businesses. The amount of the compensation eligible for the tax credit for the principal director, principal producer, and principal cast members is based on the total qualified expenditures of the film project.

- If the qualified expenditures are at least \$10 million but less than \$20 million, the compensation for the principal director, principal producer, and principal cast member cannot exceed \$250,000 each.
- If the qualified expenditures are at least \$20 million, the compensation for the principal director, principal producer, and principal cast member cannot exceed \$1 million each.

The amount of compensation eligible for the tax credit for labor and personnel other than the principal producer, principal director, or principal cast members are based on the total qualified expenditures of the film project.

- If the qualified expenditures are less than \$10 million, the compensation for labor and personnel other than the principal producer, principal director, and principal cast members cannot exceed \$150,000 each.
- If the qualified expenditures are at least \$10 million but less than \$20 million, the compensation for labor and personnel other than the principal producer, principal director, and principal cast members cannot exceed \$250,000 each.
- If the qualified expenditures are at least \$20 million, the compensation for labor and personnel other than the principal producer, principal director, and principal cast members cannot exceed \$300,000 each.

**Film Investment Tax Credit:**

A film investment tax credit is available for individual income, corporation income, franchise, insurance premiums, and moneys and credits tax.

The tax credit is equal to 25% of a taxpayer's investment in a film, television, or video project registered with the film office of the Iowa Economic Development Authority. The film, television, or video project must have expenditures of at least \$100,000 in Iowa to be registered with the film office.

A taxpayer cannot claim the film investment tax credit for qualified expenditures for which the film expenditure tax credit was claimed.

Any credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever is earlier. If the taxpayer earning the credit is a

partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed to an individual, the individual may claim the tax credit based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, estate, or trust.

After verifying the eligibility for the tax credit, the Iowa Economic Development Authority will issue a tax credit certificate to the taxpayer containing the name, address, tax identification number, date of project completion, and the amount of the tax credit. The Iowa Economic Development Authority can negotiate the amount of the tax credit.

The tax credit certificate may be transferred to any person or entity. Within 90 days of transfer, the transferee will submit the transferred tax credit certificate to the Iowa Department of Revenue along with a statement containing the amount of credit to be transferred. Within 30 days of receiving the transferred tax credit certificate, the Iowa Department of Revenue will issue a replacement tax credit certificate to the transferee.

Any consideration received for the transfer of the tax credit is not included in income for individual income, corporation income, or franchise tax purposes. Any consideration paid for the transfer of the tax credit will not be deducted from income for individual, corporation income or franchise tax purposes.

### **Franchise Tax Credit:**

If a financial institution as defined in section 581 of the Internal Revenue Code elects to file as an S corporation for federal income tax purposes and therefore have its income taxed directly to the shareholders, those shareholders qualify for a franchise tax credit.

Iowa imposes a franchise tax on financial institutions, and Iowa does not recognize the S corporation election for Iowa franchise tax purposes. Therefore, the franchise tax credit is allowed to avoid double taxation of income.

Starting with any financial institutions organized as limited liability companies on or after July 1, 2004, the franchise tax credit is also available to members of the limited liability company. The limited liability company would file the franchise tax return, and members of the limited liability company would be eligible to take the franchise tax credit.

The Franchise Tax Credit Worksheet (IA 147) will help you calculate the credit. You do not need to send it with your return, but keep it with your tax records.

The amount of any unused credit may not be carried forward.

Sections 422.11 and 422.33(8)

### **Housing Investment Tax Credit:**

Starting in 1999, for taxpayers approved by the Iowa Economic Development Authority under the Eligible Housing Enterprise Zone Program, an investment tax credit is available equal to 10% of the new investment directly related to the building or rehabilitation of homes in an enterprise zone. This is a nonrefundable credit, with a 7-year carryforward. The credit is claimed on worksheet IA 3468. The credit is based on a maximum of \$140,000 for each single-family home or for each unit of a multiple dwelling.

Starting in 2003, for the investment tax credit for eligible housing projects only, the credit can be transferred to another person or entity, if low-income housing credits under section 42 of the Internal Revenue Code was used to help finance the housing project.

Effective for projects beginning on or after July 1, 2005, the investment tax credit can be transferred if the housing development is located in a brownfield site or in a blighted area.

### **Investment Tax Credit:**

An investment tax credit of 10% of the purchase price of real property including any buildings and structures located on the real property, cost of machinery and equipment, and the cost of improvements to real property is available to an eligible business. An eligible business must be approved by the Iowa Economic Development Authority under the New Jobs and Income Program, New Capital Investment Program, Enterprise Zone Program, or the High Quality Jobs Program.

Any credit in excess of the tax liability can be carried forward seven years or until used, whichever comes first. If you are a partner, shareholder, member, or beneficiary in a partnership, corporation, limited liability company, estate, or trust, you may claim the investment tax credit for the qualifying entity. The amount of the credit to you is based on your pro rata share of the individuals earnings of the qualifying entity.

If, however, the eligible business sells, disposes of, razes, otherwise renders unusable all or a part of the land, buildings, or other existing structures within five years of purchase, the investment tax credit must be recaptured in the year that all or a part of the property is sold, disposed of, razed, or otherwise rendered unusable. The percentage of investment credit that is recaptured is from 100% if the property is sold, disposed of, razed, or otherwise rendered unusable in the first year to 20% if the property is sold, disposed



of, razed, or otherwise rendered unusable in the fifth year.

The credit is determined by multiplying the qualifying new investment by 10%, except for the New Capital Investment Program, which has various rates of 1-5%, and the High Quality Job Creation Program, which has various rates of 1-10%, depending on the amount of qualifying investment and number of jobs created.

New investment includes the cost of machinery and equipment purchased for use in the operation of the eligible business, and the cost of improvements to real property. New investment also includes the cost of land and any buildings and structures located on the land. The credit can be taken in the year the qualifying asset is placed in service. For businesses qualified on or after July 1, 2005, under the Enterprise Zone program and the High Quality Job Creation Program, the investment tax credit is amortized over a 5-year period. For the Housing Enterprise Zone Program, the credit can be taken in the year the home is ready for occupancy.

Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following seven tax years or until depleted, whichever is earlier.

#### **High Quality Jobs Program:**

Businesses must be approved by the Iowa Economic Development Authority. Businesses providing a sufficient benefits package will qualify for a credit against the qualifying wage threshold. Businesses creating jobs only need to pay 100% of the qualifying wage threshold at the start of the project completion period, but must pay 130% of the qualifying wage threshold by the project completion date. Businesses retaining jobs must pay 130% of the qualifying wage threshold from the start of the project completion period. Retail businesses or businesses where entrance is limited by a cover charge or membership requirement cannot qualify for the tax incentives.

The tax incentives for the High Quality Jobs Program are as follows:

#### **Number of new or retained jobs is zero**

- Investment less than \$100,000 – 1% Investment tax credit
- Investment of \$100,000 – \$499,999 – 1% Investment tax credit and sales tax refund
- Investment of \$500,000 or more – 1% Investment tax credit, sales tax refund, and additional R & D credit

#### **Number of new or retained jobs is 1-5**

- Investment less than \$100,000 – 2% Investment tax credit
- Investment of \$100,000 – \$499,999 – 2% Investment tax credit and sales tax refund
- Investment of \$500,000 or more – 2% Investment tax credit, sales tax refund, and additional R & D credit

#### **Number of new or retained jobs is 6-10**

- Investment less than \$100,000 – 3% Investment tax credit
- Investment of \$100,000 – \$499,999 – 3% Investment tax credit and sales tax refund
- Investment of \$500,000 or more – 3% Investment tax credit, sales tax refund, and additional R & D credit

#### **Number of new or retained jobs is 11-15**

- Investment less than \$100,000 – 4% Investment tax credit
- Investment of \$100,000 – \$499,999 – 4% Investment tax credit and sales tax refund
- Investment of \$500,000 or more – 4% Investment tax credit, sales tax refund, and additional R & D credit

#### **Number of new or retained jobs is 16 or more**

- Investment less than \$100,000 – 5% Investment tax credit
- Investment of \$100,000 – \$499,999 – 5% Investment tax credit and sales tax refund
- Investment of \$500,000 – \$9,999,999 – 5% Investment tax credit, sales tax refund, and additional R & D credit

#### **Number of new or retained jobs is 31-40, and the investment is \$10 million or more**

- 6% Investment tax credit, sales tax refund, additional R & D credit, and local property tax exemption

#### **Number of new or retained jobs is 41-60, and the investment is \$10 million or more**

- 7% Investment tax credit, sales tax refund, additional R & D credit, and local property tax exemption

#### **Number of new or retained jobs is 61-80, and the investment is \$10 million or more**

- 8% Investment tax credit, sales tax refund, additional R & D credit, and local property tax exemption

#### **Number of new or retained jobs is 81-100, and the investment is \$10 million or more**

- 9% Investment tax credit, sales tax refund, additional R & D credit, and local property tax exemption



**Number of new or retained jobs is 101 or more, and the investment is \$10 million or more**

- 10% Investment tax credit, sales tax refund, additional R & D credit, and local property tax exemption

**Minimum Tax Carry Forward Credit:**

You may be eligible for this credit if you paid Iowa minimum tax in prior years based on tax preferences and adjustments. The credit is limited to the extent the regular tax exceeds the alternative minimum tax for a tax year. There is no limit on the number of years this credit can be carried forward. Compute on form IA 8801 and include with the IA 1040.

Sections 422.11B, 422.33(7) and 422.60(3)

**New Jobs Credit:**

If you started a new business or increased employment of your existing business by 10% and your business had a 260E agreement with a vocational school or area community college, you may qualify for the New Jobs Credit. This credit includes the training of existing employees. This is a one-time credit, equal to 6% of the taxable wages which the employer is required to contribute to the state unemployment compensation fund.

Compute this credit on worksheet IA 133 (pdf) and include with your return.

For 2011, this tax credit equals \$1,482 (\$24,700 maximum wages times 6%) for each job created. It is a nonrefundable credit with a 10-year carryforward.

Sections 422.11A and 422.33(6)

**Redevelopment Tax Credit:**

The credit is based on a percentage of the taxpayer's qualifying investment in redeveloping a brownfield or grayfield site. A brownfield site is defined as an abandoned, idled, or underutilized industrial or commercial facility where expansion or redevelopment is complicated by real or perceived environmental contamination. A grayfield site is defined as a property that has been developed and has infrastructure in place but the property's current use is outdated or prevents a better or more efficient use of the property. Such property includes vacant, blighted, obsolete, or otherwise underutilized property. Additional tax credit is available if the redevelopment meets established "green development" standards.

This tax credit program is administered by the Iowa Economic Development Authority. The total amount of tax credits available is \$5 million for each fiscal year starting with the fiscal year beginning July 1, 2011.

As a nonrefundable credit, any unused credit may be carried forward for up to five years. An individual may claim the tax credit allowed a partnership, limited liability company, S corporation, estate, or trust electing to have income taxed directly to an individual based on the pro rata share of earnings of the entity.

The tax credit certificate may be transferred to any person or entity.

Note: For Iowa individual income tax purposes, the increase in the basis of the redeveloped property that would otherwise result from the qualified redevelopment costs will be reduced by the amount of the tax credit.

**Renewable Energy Credit:**

A producer or purchaser of renewable energy from a facility approved by the Iowa Utilities Board is entitled to a tax credit equal to 1.5 cents per kilowatt hour of electricity, or \$4.50 per million BTUs of heat, refuse-derived fuel, methane gas, or other biogas; or \$1.44 per 1,000 standard cubic feet of hydrogen fuel.

The facilities approved cannot exceed 180 megawatts of nameplate generating capacity related to wind energy facilities, and cannot exceed the combined output of 20 megawatts of capacity and 167 billion BTUs of heat related to other facilities.

Effective July 1, 2011, the amount of nameplate generating capacity for renewable energy tax credit projects was increased to 363 megawatts. This was an increase from the prior maximum amount of nameplate generating capacity for wind projects of 330 megawatts.

Beginning January 1, 2009, small wind energy systems operating in a small wind innovation zone will be eligible for the renewable energy tax credit of 1.5 cents per kilowatt-hour of electricity. The small wind energy system must have a nameplate generating capacity of 100 kilowatts or less.

A political subdivision of the state of Iowa, including but not limited to a city, county, township, school district, community college, area education agency, institution under the control of the state board of regents, or any other local commission, association, or tribal council can seek approval from the Iowa Utilities Board to set up a small wind innovation zone.

Any tax credit in excess of the tax liability can be carried forward for seven years. A tax credit certificate is issued by the Department of Revenue for the amount of the credit, and the credit can be transferred once. A producer or purchaser can receive the tax credit certificates for a 10-year period, and no credit

can be used for a tax year beginning prior to July 1, 2006.

Sections 422.11J, 422.33(16) and 422.60(8)

### **S Corp Apportionment Credit:**

Individual resident shareholders of S corporations which conduct business within and without Iowa can claim a tax credit. The credit is structured so that the S corporation is taxed on the greater of income attributable to Iowa under the single sales factor or actual distributions by the S corporation less federal income tax. The intent is to treat S corporations similar to C corporations that are entitled to apportion income within and without Iowa. Complete form IA 134 and include with the IA 1040.

The amount of any unused credit may not be carried forward.

Section 422.8(2)(b)

### **School Tuition Organization Tax Credit Contributions:**

A school tuition organization tax credit is available for individual income tax equal to 65% of the amount of a contribution made by a taxpayer to a school tuition organization. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.

The school tuition organization tax credit is also available for corporation income tax. The maximum amount of school tuition organization tax credits available for corporation income tax equals 25% of the tax credits allocated to each school tuition organization.

A school tuition organization must be a charitable organization in Iowa that is exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code that allocates at least 90% of its annual revenue in tuition grants for children who reside in Iowa to allow them to attend a qualified school of their parents' choice. The school tuition organization must represent more than one school, and they can only provide tuition grants to eligible students who are members of households whose annual income does not exceed an amount equal to three times the most recently published Federal poverty guidelines published by the U.S. Department of Health and Human Services.

The Iowa Department of Revenue will authorize school tuition organizations to issue tax credit certificates for the following tax year. The total of tax credit certificates to be authorized is \$7.5 million.

The organization will then issue tax credit certificates to the persons that made a contribution to the organization. The tax credit certificate will contain the taxpayer's name, address, tax identification number, amount of contribution, amount of the tax credit, and any other information required by the Department.

Any credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever is the earlier. The amount of the contribution cannot be taken as an itemized deduction for charitable contributions for Iowa income tax purposes.

The conversion of an IRA into a contribution to a school tuition organization is also eligible for the school tuition organization tax credit.

Section 422.11M

### **Nonresidents and Part-year Residents:**

The school tuition organization tax credit must be adjusted using the following steps:

**Step 1.** Divide Iowa net income (line 26, IA 126) by all-source net income of you and spouse (line 26, IA1040).

**Step 2.** Multiply Step 1 above by the amount of credit shown on the tax credit certificate.

**Step 3.** Enter this amount in column D on Part I of the IA 148.

### **Venture Capital Tax Credit - Iowa Fund of Funds:**

Starting in 2002, a contingent tax credit is available for investments to a qualifying business, community-based seed capital fund, or a venture capital fund certified by the Iowa Capital Investment Board. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. The Iowa fund of funds will make investments in venture capital funds who make a commitment to consider investments in businesses located in Iowa.

The contingent tax credits are capped at \$60 million in the aggregate, and cannot be claimed until at least five years after the investment is made. Also, only \$20 million of credits can be claimed in one year. The credit is nonrefundable, with a 7-year carryforward.

The tax credit certificate is issued by the Iowa Capital Investment Board.

### **Venture Capital Tax Credit - Qualified Business or Seed Capital Fund:**

Starting in 2002, a tax credit is allowed for 20% of the equity investment made into a qualifying business or community-based seed capital fund approved by the Iowa Capital Investment Board. This credit is focused

on “angel investors” who make investments in start-up companies. The tax credit cannot be claimed until three years after the investment is made; for example, investors who made investments in 2008 cannot claim the tax credit until the 2011 tax return.

Credits can be claimed until the total cap of \$10 million is reached. This is a nonrefundable credit, with a 5-year carryforward.

Sections 15E.43, 422.11F, 422.33(12) and 422.60(5)

#### **Venture Capital Credit - Venture Capital Funds:**

Starting in 2002, a tax credit is allowed for 6% of the equity investment made in a venture capital fund approved by the Iowa Capital Investment Board. The tax credit cannot be claimed until three years after the investment is made; for example, investors who made investments in 2008 cannot claim the tax credit until the 2011 tax return. The credits are capped in the aggregate at \$5 million. This credit was repealed for investments made after July 1, 2010. This is a nonrefundable credit, with a 5-year carryforward.

This credit was repealed for investments made after July 1, 2010. Sections 15E.51, 422.11G, 422.33(13) and 422.60(6)

#### **Wind Energy Production Tax Credit:**

The wind energy production facility must be placed in service on or after July 1, 2005, but before July 1, 2012, to qualify for the tax credit.

Effective July 1, 2011, the nameplate capacity limit was reduced from 150 megawatts of nameplate capacity to 50 megawatts.

For applications filed on or after March 1, 2008, the facility must also consist of one or more wind turbines connected to a common gathering line which has a combined nameplate capacity of no less than two megawatts and no more than 30 megawatts.

The credit is equal to 1 cent multiplied by the number of kilowatt-hours of electricity sold or used for on-site consumption. Any tax credit in excess of the tax liability can be carried forward for seven years. A tax credit certificate is issued by the Department of Revenue for the amount of the credit, and the credit can be transferred once. The credit cannot be used for a tax year beginning prior to July 1, 2006.

In cases where the applicant is a partnership, limited liability company, S corporation, estate, trust, or other reporting entity which elects to have income taxed directly to an individual and the applicant is also eligible to receive renewable electricity production tax credits authorized under section 45 of the Internal Revenue Code, the credit does not have to be based

upon the individual's pro rata share of earnings from the entity.

For applications filed on or after July 1, 2009, Iowa colleges, schools, and public hospitals will be eligible for the wind energy production tax credit for qualified electricity generated for their own use as long as the combined nameplate capacity is  $\frac{3}{4}$  of a megawatt or greater.

There are two alternatives to issue the tax credits, as noted below:

- The credit can be claimed based on the amounts designated by the eligible partnership, limited liability company, or S corporation to a partner, member, or shareholder, or
- The credit and all future rights to the tax credit may be distributed to an equity holder or beneficiary as a liquidating distribution, or portion thereof, of a holder or beneficiary's interest in the applicant entity

In both cases, the applicant must identify, in the application for the tax credit certificate, the holders or beneficiaries that are to receive the tax credit certificates.

Sections 422.11J, 422.33(16) and 422.60(8)

#### **54. BALANCE.**

Subtract the amount on line 53 from the amount on line 52. If less than zero, enter zero.

#### **55. SCHOOL DISTRICT SURTAX / EMERGENCY MEDICAL SERVICES SURTAX.**

If you do not know your school district name, it is listed on your voter registration card.

Multiply the amount on line 54 by the surtax rate and enter the result. Residents of school districts that do not have a surtax should enter zero on line 55. The applicable school district is the one in which you resided on the last day of the tax year, not necessarily the district where your children attend school. Taxpayers without children, or without children in public school, are still subject to this tax.

Counties may impose a countywide Emergency Medical Services (EMS) income surtax. At this time, Appanoose is the only county that has an EMS surtax. The EMS surtax is included in the school district surtax list.

If you itemize, you may claim the school district surtax/EMS surtax shown on your 2010 Iowa income tax return as an itemized deduction on line 4 of the 2011 Iowa Schedule A.

## 56. TOTAL TAX.

Add lines 54 and 55 and enter the total on line 56.

## 57. TOTAL TAX BEFORE CONTRIBUTIONS.

Add the amounts in columns A and B on line 56 and enter the total on line 57.

## 58. CONTRIBUTIONS.

Enter your voluntary contributions to any of the following “checkoffs” in boxes 58a, 58b, 58c, and 58d. Please note that you may contribute to any of the checkoffs regardless of whether you are entitled to a refund or owe additional taxes, but your contribution will reduce your refund or add to the amount you owe. Your contribution will qualify as a charitable contribution on your 2012 return if the return is filed during the 2012 calendar year. If you file an amended return, you cannot change your contribution.

### 58a.

#### FISH AND WILDLIFE FUND.

**(Chickadee Checkoff).** You may contribute any amount of \$1 or more to the Iowa Fish and Wildlife Protection Fund. Your contribution through this checkoff is the primary support for **Iowa’s Wildlife Diversity Program** which monitors, researches and manages the state’s nongame species of wildlife. According to the Natural Resource Commission policy, 100% of the money donated to this program goes to the Wildlife Diversity Program.

### 58b.

#### IOWA STATE FAIR FOUNDATION.

**(Corn Dog Checkoff).** You may contribute any amount of \$1 or more to this fund. The proceeds from this checkoff will be added to other sources such as gifts, donations and bequests to be used by the **Iowa State Fair Blue Ribbon Foundation** to fund capital projects and improvements to property on the Iowa State Fairgrounds.

### 58c.

#### FIREFIGHTERS.

You may contribute any amount of \$1 or more to this fund. This checkoff will be used to train Iowa’s firefighters. The money collected will be used to offset the financial burdens that many fire departments deal with when it comes to ensuring their firefighters are adequately trained in all facets of emergency response.

The amounts contributed to the joint Firefighters Preparedness Fund / Veterans Trust Fund checkoff will be split evenly between these two funds.

### 58c.

#### VETERANS TRUST FUND.

You may contribute any amount of \$1 or more to the Veterans Trust Fund. This fund assists veterans with job training, expenses related to facility or at-home care, individual or family counseling, and other services.

### 58d.

#### CHILD ABUSE PREVENTION.

You may contribute any amount of \$1 or more to this fund. Proceeds will go to support the Iowa Child Abuse Prevention Program, which funds crisis and respite child care, parent education, child sexual abuse prevention programs, and young parent support.

**Married Separate Filers:** Married couples filing separately on a combined return (filing status 3) must enter their combined checkoff amounts in the appropriate box(es) if both choose to contribute to a specific checkoff.

## 59. TOTAL TAX AND CONTRIBUTIONS.

Add lines 57 and 58 and enter the total on line 59.

## STEP 9 CREDITS

## 60. IOWA INCOME TAX WITHHELD.

Enter the total amount of income tax withheld for Iowa from your W-2s, W-2Gs, and/or 1099s. This will be the figure shown in the box labeled “State income tax withheld.”

Copies of the W-2s W-2Gs, and/or 1099s showing Iowa tax withheld must be included with the return. Photocopies of originals are accepted. Your W-2s W-2Gs, and/or 1099s must be complete and legible with no alterations.

**Married Separate Filers** (including status 4): Withholding is reported by the spouse receiving the W-2, W-2G, and/or 1099.

## 61. ESTIMATED AND VOUCHER PAYMENTS.

Enter the total amount of 2011 Iowa estimated tax payments. This includes any 4th-quarter payment made in January 2012 and any payments made with the IA 1040V Payment Voucher for tax year 2011. Also, include any amount applied to your 2011 Iowa estimated tax from line 71 of your 2010 Iowa income tax return. You cannot claim any additional Iowa income tax paid for 2010 or for any prior tax years as an estimated payment.

### Why bother with paper?

You can arrange to have your estimated payments paid directly from your credit union or bank account and you can check your estimated payment history through ePay on our Department’s eFile & Pay Web site.



In addition, you can make your final income tax payment by credit/debit card.

## 2011 INSTRUCTIONS FOR SCHEDULE IA 130

### 62. OUT-OF-STATE TAX CREDIT.

All income an Iowa resident earns is taxable to Iowa to the same extent that it is taxable on the federal return even if the income was earned in another state or foreign country. If another state or foreign country taxes that same income, then the Iowa resident may be able to claim a credit on this line. Use form IA 130 to compute the Out-of-State Tax Credit.

- Nonresidents of Iowa cannot claim this credit.
- Part-year residents of Iowa may claim this credit only if the income they earned during that part of the year that they were Iowa residents was also taxed by another state or country.

The state or foreign income tax imposed on your income is the tax shown on the income tax return you filed with that state or foreign country. It is not the amount that was withheld from your wages.

- An IA 130 form must be figured separately for each state or foreign country. Separate IA 130s are not required for foreign taxes paid by mutual funds or other regulated investment companies.
- The combined total of all credits cannot exceed the Iowa tax liability.

In order to receive the credit, a complete copy of your income tax return(s) filed with the other state(s) must be submitted with your Iowa return, along with a copy of the IA 130. If you are claiming the credit for taxes paid to a foreign country, include federal form 1116, Computation of Foreign Tax Credit if it is required with your federal return.

### SPECIAL INSTRUCTIONS FOR MINIMUM TAX OR LUMP-SUM DISTRIBUTION TAX:

- If you were assessed a minimum tax or a special tax on a lump-sum distribution by another state on items similarly taxed on your Iowa return, you must separately compute an out-of-state credit for each of these items. Do not include minimum tax or a special lump-sum tax when computing the regular tax credit.
- Minimum Tax - Report the amount of preference items taxed by the other state on line 1. However, a preference item may be included in line 1 only if it is also a preference item for Iowa purposes. Enter on line 2 the amount of Iowa preference items. Report on line 4 the minimum tax figure from line 45, IA 1040. On line 6, report only the portion of the minimum tax liability from the other state which applies to preference items which were also taxed by Iowa.

- Lump-Sum Distribution - Report on line 1 the amount of distribution subject to special lump-sum tax by the other state. Enter on line 2 the total lump-sum distribution taxed by Iowa. Report on line 4 the Iowa Lump-Sum Distribution Tax from line 44, IA 1040.

**Examples** on how to complete the IA 130 are available in the online Expanded Instructions.

### 63. MOTOR FUEL TAX CREDIT.

Enter the amount of Motor Fuel Tax Credit from Schedule IA 4136, line 7. The federal Schedule 4136 cannot be used. The Iowa credit does not apply to gasoline used in on-road vehicles or pleasure boats.

**If you have an Iowa Motor Fuel Tax Refund Permit Number** and have claimed any refunds during the tax year, do not claim any credit on this line.

For partnerships and S corporations, the amount of credit reported by each partner or shareholder is based on his or her share of earnings or losses. Each partner's/shareholder's share of the credit is found in Part III of the partner's/shareholder's IA K-1.

### 64. CHILD AND DEPENDENT CARE CREDIT OR EARLY CHILDHOOD DEVELOPMENT CREDIT.

Only one of the following two credits may be taken:

- Child and Dependent Care Credit **OR**
- Early Childhood Development Tax Credit.

Only taxpayers with a net income of less than \$45,000 are eligible to take one of these credits. If you are married, your net income and the net income of your spouse must be combined to determine if you qualify, even if your spouse does not file an Iowa return.

These credits are refundable. Even though you may not be required to file an Iowa return, you may wish to do so in order to claim a refund for one of these credits. You may be eligible for the Child and Dependent Care Credit even though you were unable to take it on your federal return.

### CHILD AND DEPENDENT CARE CREDIT

Use the following worksheet and percentage table to calculate the Child and Dependent Care Credit. The percentages are based on your Iowa net income on line 26. You must include a copy of your completed federal form 2441 or Schedule 2 of federal 1040A.

#### Child and Dependent Care Credit Worksheet

1. Enter the amount from line 9 of federal form 2441 or line 9 of Schedule 2 of federal form 1040A. Note: Use the Child Care Credit prior to any federal Alternative Minimum Tax calculation. **1.** \_\_\_\_\_
2. If total of line 26 of the IA 1040, columns A and B, is:

allowable %	allowable %
Less than \$10,000 ..... 75%	\$25,000 - \$34,999 .... 50%
\$10,000 - \$19,999 ..... 65%	\$35,000 - \$39,999 .... 40%
\$20,000 - \$24,999 ..... 55%	\$40,000 - 44,999 .... 30%
	\$45,000 and over: ..... 0%
Enter % here	2. _____

3. Multiply line 1 by percentage on line 2. Enter the result here and on line 64 of the IA 1040. 3. \_\_\_\_\_

#### Nonresidents and Part-year Residents:

The Child and Dependent Care Credit must be adjusted using the following steps:

**Step 1.** Divide Iowa net income (line 26, IA 126) by all-source net income of you and spouse (line 26, IA 1040). The ratio cannot exceed 100%.

**Step 2.** Multiply Step 1 above by the amount of credit calculated in the worksheet, line 3.

**Step 3.** Enter this amount on line 64 of the IA 1040.

#### EARLY CHILDHOOD DEVELOPMENT CREDIT

If you are choosing the Early Childhood Development Tax Credit, you may take the credit equal to 25% of the first \$1,000 of qualifying expenses paid in 2011 for each dependent from the ages of three through five.

#### Expenses that qualify include the following:

- Services provided by a preschool, as defined in Code section 237A.1
- Books that improve child development, such as textbooks, music and art books, teacher's editions, and reading books
- Instructional materials required to be used in a lesson activity, such as paper, notebooks, pencils, and art supplies
- Lesson plans and curricula
- Child development and educational activities outside the home, such as drama, art, music, museum activities, and the entrance fees for such activities

#### Early childhood development expenses that do NOT qualify include:

- Food, lodging, or membership fees relating to child development and educational activities outside the home
- Services, materials, or activities for the teaching of religious tenets, doctrines, or worship, if the purpose of these expenses is to instill those tenants, doctrines, or worship

**Nonresidents and Part-year Residents:** No adjustment is required to the Early Childhood Development Tax Credit.

**Married Separate Filers:** In computing the credit, the combined net income of both spouses must be used. The credit must be divided between spouses in the ratio of each spouse's net income to their combined net income.

#### 65. IOWA EARNED INCOME TAX CREDIT.

The Iowa Earned Income Tax Credit is a refundable credit.

This credit is available only to taxpayers who qualify for the federal Earned Income Tax Credit (EITC).

To find out if you qualify for federal EITC, see the online IRS EITC information or call the IRS at 1-800-829-1040.

To calculate the Iowa Earned Income Tax Credit, multiply your federal EITC by .07 (7.0%)

#### If you are filing an Iowa return only to claim

**EITC:** If you qualify for the low income exemption as explained in the instructions for line 26 and are filing an Iowa return **only** to claim a refund of the Iowa EITC, enter the words "low income exemption" in the area to the left of your net income figure on line 26. Enter zero on lines 56, 57, and 59. Enter the amount of your Iowa EITC on lines 65, 67, 68, 69, and 70.

#### Nonresidents and Part-year Residents:

The Iowa EITC must be adjusted using the following formula.

Iowa net income (line 26, IA 126)

*divided by*

All-source net income of you and spouse (line 26, IA 1040)

(The ratio cannot exceed 100%.)

*multiplied by* the Iowa Earned Income Tax Credit *equals* credit on line 65

**Married Separate Filers:** The Iowa EITC must be divided between spouses in the ratio of each spouse's earned income to the total earned income of both spouses. Earned income includes wages, salaries, tips, other compensation, and net earnings from self-employment.

#### 66. OTHER REFUNDABLE CREDITS.

Enter the total of other credits from Part II of the IA 148 Tax Credits Schedule.

**Form IA 148 Tax Credits Schedule  
must be completed.**

**Assistive Device Tax Credit:**

A taxpayer who is a small business that purchases, rents, or modifies an assistive device or makes workplace modifications for an individual with a disability is eligible for this credit. The credit is limited to 50% of the first \$5,000 paid for the assistive device or workplace modification. The Iowa Economic Development Authority certifies those eligible for the credit and issues tax credit certificates for eligible claimants. This is a refundable credit.

This credit was repealed effective on July 1, 2009, for individual income tax, but is still available for corporation income tax.

422.11E & 422.33(9)

**Biodiesel Blended Fuel Tax Credit:**

**This is not a motor fuel tax credit or refund. It is an income tax credit.** Include a copy of form IA 8864 with your Iowa income tax return.

A biodiesel blended fuel tax credit is available to retail dealers of diesel fuel who operate motor fuel pumps at a retail motor fuel site. Tank wagons are considered retail motor fuel sites.

Beginning January 1, 2009, this credit must be calculated separately for each retail motor fuel site operated by the taxpayer. To qualify for the tax credit, 50% or more of the gallons of diesel fuel sold by the dealer through motor fuel pumps at that retail motor fuel site in Iowa must be biodiesel fuel containing a minimum percentage of 2% by volume of biodiesel.

The tax credit equals 3 cents multiplied by the total number of gallons of biodiesel blended fuel gallons sold during the retail dealer's tax year.

Any credit in excess of the tax liability may be refunded or, in the alternative, credited to the tax liability for the following year. If the biodiesel blended fuel tax credit is earned by partnerships, limited liability companies, S corporations, estates, or trusts where income is taxed directly to the individual, the credit can be claimed by the individual based on the pro rata share of the individual's earnings in the entity.

422.11P and 422.33(11C)

**Claim of Right Credit:**

A credit may be taken if there was income repaid in the 2011 tax year that was reported and taxed on a prior Iowa return. To calculate the credit, recompute

the tax in the prior year without the repaid income. Enter the tax reduction that was calculated as a credit on this line. However, it may be to your advantage to take an income adjustment on line 24. You may take either the credit on this line or a deduction of the amount repaid on line 24, but not both.

**Example of Claim of Right Credit:** A taxpayer received a \$5,000 bonus in 2009 and reported it on the 2009 Iowa return. In 2011 the taxpayer's employer advised that the bonus was awarded in error and was to be repaid. The bonus was repaid by the end of 2011. After recomputing the 2009 Iowa return, there is a \$440 reduction in tax. The taxpayer may claim a credit of \$440 on line 66 of the 2011 Iowa return.

**E15 Plus Gasoline Promotion Tax Credit**

**This is not a motor fuel tax credit or refund. It is an income tax credit.** Attach a copy of form IA 138 to your Iowa income tax return.

A retail dealer of gasoline who sells E-15 plus gasoline is entitled to an E15 Plus Gasoline Promotion Tax Credit. E15 plus gasoline is ethanol blended gasoline with an ethanol content between 15% and 69% by volume. The credit is available for E15 plus gallons sold on or after July 1, 2011.

The amount of credit is three cents multiplied by the total number of gallons of E15 plus gasoline sold. A taxpayer may claim the E15 Plus Gasoline Promotion Tax Credit even if the taxpayer claims the Ethanol Promotion Tax Credit for the same ethanol gallons.

Any credit in excess of the tax liability may be refunded or, in the alternative, credited to the tax liability for the following year. If the E15 Plus Gasoline Promotion Tax Credit is earned by partnerships, limited liability companies, S corporations, estates, or trusts where income is taxed directly to the individual, the credit can be claimed by the individual based on the pro rata share of the individual's earnings in the entity.

422.5(10)

**E85 Gasoline Promotion Tax Credit:**

**This is not a motor fuel tax credit or refund. It is an income tax credit.** Include a copy of form IA 135 with your Iowa income tax return.

An income tax credit is available to retail dealers of gasoline who sell E85 gasoline through motor fuel pumps during the tax year.

Any credit in excess of the tax liability is refundable. The credit can be claimed on form IA 135.

The amount of the credit is determined by multiplying the total number of E85 gallons sold by the following rate:

- Calendar year 2011: 10 cents
- Calendar year 2012: 16 cents
- Calendar year 2013: 16 cents
- Calendar year 2014: 16 cents
- Calendar year 2015: 16 cents
- Calendar year 2016: 16 cents
- Calendar year 2017: 16 cents

Retail dealers of gasoline whose tax year is not on a calendar year basis may compute the tax credit on the gallons of E85 gallons sold during the year using the applicable credit amounts as shown above. A retail dealer of gasoline whose tax year ends prior to December 31, 2017, can continue to claim the tax credit in the following tax year for any E85 gallons sold through December 31, 2017.

A retail dealer whose tax year is not on a calendar year basis and who did not claim the E85 credit on the previous return may claim the credit for the current tax year for the period beginning on January 1 of the previous tax year to the last day of the previous tax year. This section is repealed on January 1, 2018.

Any credit in excess of the tax liability may be refunded or, in the alternative, credited to the tax liability for the following year. If the E85 gasoline promotion tax credit is earned by partnerships, limited liability companies, S corporations, estates, or trusts where income is taxed directly to the individual, the credit can be claimed by the individual based on the pro rata share of the individual's earnings in the entity. 422.11O and 422.33(11B)

### Ethanol Promotion Tax Credit:

**This is not a motor fuel tax credit or refund. It is an income tax credit.** Include a copy of form IA 137 with your Iowa income tax return.

Effective January 1, 2009, an ethanol promotion tax credit is available to retail dealers of ethanol blended gasoline. This replaces the ethanol blended gasoline tax credit.

The amount of the tax credit is based on the pure amount of ethanol gallons sold; for example, 10 gallons of E10 equals 1 gallon of pure ethanol. The credit is repealed on January 1, 2021.

The amount of the tax credit depends on whether the retail dealer attains a biofuel threshold standard, and how many gallons of motor fuel are sold in a year. The biofuel threshold standards for retail dealers who sell

more than 200,000 gallons in a year, compared with the biofuel threshold standards for dealers who sell 200,000 gallons or less in a year, are shown below:

Calendar Year	Percentage more than 200,000	Percentage 200,000 or less
2011	12%	10%
2012	13%	11%
2013	14%	12%
2014	15%	13%
2015	17%	14%
2016	19%	15%
2017	21%	17%
2018	23%	19%
2019	25%	21%
2020	25%	25%

The credit is calculated separately for each retail motor fuel site. For any year in which the retail dealer has met the threshold, the credit is 8 cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by 2% or less, the credit is 6 cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by more than 2% but not more than 4%, the credit is 2 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by 4% or more, then no credit is allowed.

The retail dealer determines the biofuel percentage by summing the pure ethanol gallons and the pure biodiesel gallons sold during the calendar year, and dividing this sum by the total gasoline gallons sold during the calendar year. While the biodiesel gallons are included in the computation of the biofuel percentage to determine if the threshold is met, only the pure ethanol gallons sold are used in determining the amount of the credit.

**Example:** A retail dealer only operates one motor fuel site. The number of gallons of gasoline sold at this site in 2011 equals 100,000 gallons. This consisted of 5,000 gallons of E85, 80,000 gallons of E10, and 15,000 gallons not containing ethanol. The dealer also sold 15,000 gallons of diesel fuel at this site during 2011, of which 5,000 gallons was B2 (2% biodiesel). The pure ethanol gallons is 12,250 (5,000 x 85% = 4,250. 80,000 x 10% = 8,000. 4,250 + 8,000 = 12,250). The pure biodiesel gallons sold is 100, or 5,000 x 2%. The total of 12,250 and 100, or 12,350, is divided by the total gasoline gallons sold of 100,000 to arrive at a biofuel percentage of 12.35%. Since this exceeds the 10% threshold for a dealer selling less than 200,000 gallons, the credit is 8 cents x 12,250, or \$980.

A retail dealer of gasoline will be able to claim the ethanol promotion tax credit even if the dealer claims



an E85 gasoline promotion tax credit or the E15 Plus Gasoline Promotion tax credit for the same tax year for the same ethanol gallons sold. For retail dealers of gasoline whose tax year is not on a calendar year basis, the retail dealer may compute the tax credit on the gallons of pure ethanol sold during the year using the applicable credit amounts as shown above. Any credit in excess of the tax liability is refundable.

422.11N and 422.33(11A)

### **Historic Preservation and Cultural and Entertainment District Tax Credit:**

A historic preservation and cultural and entertainment district tax credit is available for 25% of the qualified costs of rehabilitation of eligible property in Iowa. This credit is administered by the state historic preservation office of the Iowa Department of Cultural Affairs.

Any credit in excess of the tax liability is fully refundable and not discounted.

The historic preservation and cultural and entertainment district tax credit can be transferred to any person or entity.

**Effective July 1, 2009:** The amount of aggregate tax credits is \$50 million starting with the fiscal year beginning July 1, 2009 through the fiscal year beginning July 1, 2011. For the fiscal year beginning July 1, 2012, the amount of aggregate tax credits is \$45 million.

The total of \$50 million of tax credits available in a fiscal year are allocated as follows:

- \$5 million for projects with final qualified rehabilitation costs of \$500,000 or less
- \$15 million for projects located in cultural and entertainment districts or projects identified in Iowa great places agreements
- \$10 million for disaster recovery projects
- \$10 million for projects that involve the creation of more than 500 permanent jobs
- \$10 million for any other eligible project

For projects that involve the creation of more than 500 permanent jobs, the jobs must be created within two years of the date the tax credit certificate is issued. The credit is subject to recapture by the Department of Revenue if the jobs are not created within two years.

For credits reserved prior to July 1, 2009, the project must be completed by June 30, 2011, to remain eligible for the tax credit. For credits reserved on or after July 1, 2009, the project must be completed

within 60 months of the date on which the project application was approved.

This information is based on rule 701-42.15 .

422.11D, 422.33(10), 422.60(4) and 404A.2

### **Research Activities Credit:**

Starting in 1985, a credit became available for 6.5% of Iowa's apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal research activities credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures.

Effective with the enactment of 2011 Iowa Acts, Senate File 512 on April 12, 2011, Iowa has coupled with the "Alternative Simplified Research Credit" which can be elected at the federal level. This credit is claimed on form IA 128S. A taxpayer may choose each year whether to take the alternative credit or the "regular" research credit for Iowa tax purposes.

Taxpayers who are approved by the Iowa Economic Development Authority under the New Jobs and Income Program or the Enterprise Zone program prior to July 1, 2010 can double their research credit claimed on either the the IA 128 and IA 128S, The research credit can be doubled under the High Quality Jobs Program for taxpayers approved by the Iowa Economic Development Authority if certain criteria is met. For approvals on or after July 1, 2010, the amount of supplemental research activities credit depends upon the gross revenue of the eligible business. See instructions to the IA 128 and IA 128S for more information. information.

Sections 422.10 and 422.33(5) and 15.335 and

### **67. TOTAL.**

### **Wage-Benefit Tax Credit:**

For new jobs created on or after June 9, 2005, a wage-benefit tax credit is available to non-retail, non-services businesses which create new jobs related to the location or expansion of a business in Iowa. This

### **68. TOTAL CREDITS.**

will affect tax years ending on or after June 9, 2006. If the annual wage and benefits equals at least 130% of the average county wage, but less than 160%, the tax credit equals 5% of the wages and benefits paid. If the annual wage and benefits is 160% or greater of the average county wage, the tax credit equals 10% of the wages and benefits paid.

Businesses must apply to the Iowa Department of Revenue for this credit, and the amount of credit is limited to \$4 million for 2011. The credits are issued on a “first-come, first-serve” basis. If the business retains the job, the tax credit will be allowed for the subsequent four years. Any tax credit in excess of the tax liability can be refunded.

Sections 422.11L, 422.33(18) and 422.60(10)

Add the amounts on lines 61 through 66 and enter the total.

Add columns A and B of line 67; enter the total.

## STEP 10: REFUND OR AMOUNT YOU OWE.

### 69. AMOUNT YOU OVERPAID.

If line 68 is more than line 59, subtract line 59 from line 68 and enter the difference. You can have all or part of this amount refunded to you on line 70. The remainder, if any, can be applied to your estimated tax for 2012 on line 71.

### 70. AMOUNT TO BE REFUNDED.

Enter the portion of the amount shown on line 69 you wish to have refunded to you.

**Paper-filers:** Allow at least 16 weeks to receive your refund. **Errors delay return processing.** Paper returns have an error rate of more than 20%. Errors can delay a refund up to six additional months. Direct deposit is not available to paper filers.

**E-filers:** Receive your refund in two weeks or less. Less than 10% of electronic returns needed review last year. Iowa has several options for e-filing. Some of them are free. **Direct deposit is available only to e-filers.** Direct deposit of Iowa refunds can only be made into one account.

### 71. OVERPAYMENT APPLIED TO ESTIMATED TAX.

Subtract line 70 from line 69. This is the amount that will be applied to your estimated tax for 2012. Enter this amount on line 71. Use only column A if you and your spouse file jointly.

If you choose to apply part or all of your overpayment to your estimated tax for 2012, the return **must** be filed by December 31, 2012, and this choice **cannot** be changed after December 31, 2012.

2011 returns filed after December 31, 2012, may not request that overpayment be applied to estimated tax. Any overpayment will be refunded.

If you do not make any entry on line 70 or 71, the entire amount of the overpayment on line 69 will be refunded to you.

THE TOTAL OF LINES 70 AND 71 MUST EQUAL THE AMOUNT ON LINE 69.

### Married Filing Separately on a combined return:

Entries in both column A and column B will establish two estimated tax accounts, and you and your spouse will receive separate estimated forms to complete.

## 72. AMOUNT OF TAX YOU OWE.

If line 68 is LESS THAN line 59, subtract line 68 from line 59 and enter the difference.

### About Iowa income tax withholding...

If the amount you owe (line 72) or the amount you overpaid (line 69) is large, you may wish to file a new IA W-4 with your employer to change the amount of Iowa income tax withheld from your pay.

## 73. PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX.

If you are required to make estimated tax payments but fail to make the payments, you are subject to a penalty in addition to any tax you may owe. The penalty is determined in the same way as for federal purposes. Consequently, you must include your Iowa income, lump-sum, and minimum taxes when calculating the penalty for underpayment of estimated tax.

If you are subject to this penalty, complete IA 2210 (IA 2210F for farmers and fishers) or IA 2210S and enter the penalty on this line. Include a copy of the IA 2210, IA 2210F, or IA 2210S with your return. If you elect to use the annualized method of computing the penalty, include a copy of your IA 2210 Schedule AI (Annualized Income Installment Method) with your tax return.

If you are due a REFUND, subtract the penalty amount from the overpayment you show on line 70 or line 71.

Examples of how to complete the IA 2210 are in the 2011 online version of the Expanded Instructions.

Individuals who expect to owe Iowa tax of \$200 or more for the tax year from income not subject to Iowa withholding tax must make quarterly estimated tax payments. These payments may be made through ePay (direct debit) on our Web site or with an IA 1040ES form.

#### **74. PENALTY AND INTEREST.**

Enter the penalty on line 74a, the interest on line 74b and the total on line 74.

##### **74a. PENALTY**

###### **10% Penalty for Failure to Timely File a Return:**

If you do not file your return by the due date and at least 90% of the correct tax is not paid, you owe an additional 10% of the unpaid tax.

###### **5% Penalty for Failure to Timely Pay the Tax Due:**

If you file your return on time but do not pay at least 90% of the correct tax due, you owe an additional 5% of the unpaid tax.

You will never be subject to both the 5% and 10% penalties. The penalty will be the applicable 5% or 10%, but not a total of 15%.

##### **74b. INTEREST.**

Interest must be added to delinquent tax. Interest is added at a rate of 0.4% per month beginning on the due date of the return (April 30) and accrues each month until paid in full. Part of a month constitutes a whole month, so if you pay the tax on June 3, you are late for May and June for a total interest rate of 0.8% ( $2 \times 0.4\%$ ).

#### **75. TOTAL AMOUNT DUE.**

Add lines 72, 73, and 74 and enter the total on line 75. Iowa does not have a payment plan option. Pay as much as you can, and you will be billed for the balance due. Do not send cash.

### **HOW TO PAY YOUR TAX**

#### **Direct Debit payment with the income tax return.**

Your tax payment is made from your savings or checking account without having to write a check.

You may be able to make a direct debit payment through your software when you file electronically.

You may be able to schedule the payment for a future date.

#### **ePay (direct debit) from our Web site FREE**

Arrange to have your balance due paid directly from your bank or credit union account through eFile & Pay.

#### **Credit / Debit Card Online**

### **STEP 11: POLITICAL CHECKOFF.**

You may assign \$1.50 of your Iowa tax to a specified political party or to the Iowa Election Campaign Fund to be distributed among the qualifying political parties. A qualified political party is one whose candidate for President received at least 2% of the total vote cast in the last general election.

Each spouse may assign \$1.50 to the party of their choice regardless of the filing status of the return. This does not reduce your refund or increase your amount due. This checkoff is an optional feature and is not required to process your return.

#### **This year's qualified political parties are:**

- Democratic Party
- Republican Party
- Campaign Fund (split between the two parties)

### **STEP 12: SIGNATURE.**

Returns are not processed and refunds are not issued if returns are not signed. If you and your spouse file a joint or combined return, both of you must sign the return. Include a daytime telephone number.

If a paid tax professional prepared your return, he/she must also sign and enter his/her address, daytime telephone number, and identification number.

#### **Deceased Taxpayer**

Write "deceased" on the top of the tax return.

If your spouse died and you are filing a joint or combined return, write on the deceased's signature line "Filing as a surviving spouse" and the date of death. If you have the legal authorization to file for the decedent, sign the return with your legal title or authorization. Also, include any forms required to be filed with your federal return, such as federal form 1310 or a copy of the court certificate showing your appointment as a personal representative of the decedent.

## ADDITIONAL INFORMATION

### WHO MUST FILE?

#### YOU MUST FILE AN IOWA RETURN IF...

...you were a resident or part-year resident of Iowa in 2011 and meet any of the following requirements.

Nonresidents, see items f. and g.

In meeting the filing requirements below, you must add back the pension exclusion (line 21, IA 1040), the Social Security Phase-out amount from line 12 of the Iowa Social Security Worksheet, any amount of lump-sum distribution separately taxed on federal form 4972, and any net operating loss carryover.

**Note to married couples:** Incomes of both spouses must be included when determining who must file.

- a. You had a net income (line 26 of the IA 1040) of more than \$9,000 and your filing status is single. (\$24,000 if 65 or older on 12/31/11)
- b. You had a net income (line 26 of the IA 1040) of more than \$13,500 and your filing status is other than single. (\$32,000 if you or your spouse is 65 or older on 12/31/11.)
- c. You were claimed as a dependent on another person's Iowa return and had a net income (line 26 of the IA 1040; line 4 of the IA 1040A) of \$5,000 or more.
- d. You were in the military service with Iowa shown as your legal residence even though stationed outside of Iowa. For information about military spouses, please see our information on the Military Spouses Residency Relief Act.
- e. You were subject to Iowa lump-sum tax.
- f. You were a nonresident or part-year resident and your net income from Iowa sources (line 26 of the IA 126) was \$1,000 or more, unless below the income thresholds above. In the case of married nonresidents, the spouses' combined income is used to determine if their income is high enough to require them to file an Iowa return. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126.
- g. You were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax (even if Iowa-source income is less than \$1,000).

### IOWA AND ILLINOIS RECIPROCAL AGREEMENT

Any wages or salary earned by an Iowa resident working in Illinois is taxable only to Iowa and not to Illinois. Any wages or salary earned by an Illinois resident working in Iowa is taxable only to Illinois and not to Iowa.

An Iowa resident working for wages or salary in Illinois should complete and file Illinois form IL-W-5-NR "Employee's Statement of Nonresidence in Illinois" with the employer so that the employer will withhold Iowa income tax.

An Illinois resident working for wages or salary in Iowa should complete and file the IA 44-016 "Employee's Statement of Nonresidence in Iowa" with the employer so that the employer will withhold Illinois income tax.

Iowa will tax any Iowa-source income received by an Illinois resident that is not from wages or salaries. Illinois will tax any Illinois-source income received by an Iowa resident that is not from wages or salaries. Examples of income that are not wages and salaries and, therefore, not covered under the Iowa-Illinois Reciprocal Agreement are Iowa gambling winnings, unemployment compensation for employment in Iowa, and Schedule C income earned in Iowa.

If Illinois income tax has been mistakenly withheld from the wages or salary of an Iowa resident, the Iowa resident must file an Illinois income tax return to get a refund. Any questions on how to complete the Illinois return should be directed to the Illinois Department of Revenue at 1-800-732-8866.

Illinois residents who have had Iowa income tax withheld in error from their wages and have no other Iowa-source income must file an Iowa income tax return requesting a refund. They should complete Steps 1, 2, and 3 of the IA 1040, show "0" on line 1 of Step 4, line 26 of Step 5 and line 56 of Step 8, write "Illinois resident tax withheld in error" on the face of the return. On the back of the IA 1040 on lines 60, 67, 68, 69, and 70, enter the Iowa tax withheld, sign the return and include copies of W-2s with the return. Copies of federal and Illinois returns must be enclosed.



## ARE YOU A RESIDENT OF IOWA FOR TAX PURPOSES?

A person can be a resident of only one state at any given time. Usually, it is clear which state that is. Normally, it is the state in which one lives and works. Occasionally, however, the question of residency can be a little more difficult to answer. If a person moves during the year, or for some reason spends an extended period of time outside the state, the actual state of residence may not always be as obvious.

The issue of residency hinges mainly on the *intent* of the individual. That intent is often clear and easy to determine. If a person moves from one state to another with the intent of changing residence, that person will take certain actions. He or she will typically take obvious steps to eliminate ties and contacts with the former state, and establish similar ties and contacts with the new state. In some cases, however, the actions taken by the individual may create some confusion as to the actual intent.

When a person's intent is not readily apparent, several factors are used as a guide to measure that intent. No single factor can be used. All the facts and circumstances of the case must be weighed in their totality to determine a person's intent and residency. Some of the factors used in this analysis are listed below:

- Are you registered to vote in Iowa?
- Have you voted in Iowa? (in person or by absentee ballot)
- Do you or any of your family attend Iowa schools?
- Do you have an Iowa telephone listing and service?
- Do you receive your mail in Iowa?
- Do you have an Iowa driver's license?
- Is your automobile registered in Iowa? Do you have Iowa license plates?
- Do you own a home in Iowa?
- Do you claim homestead and/or military credits for property tax?
- Do you live in any other state for more days of the tax year than in Iowa?
- Do you receive income from an Iowa source?
- Do you receive services from doctors, dentists, attorneys, CPAs or any other professionals located in Iowa?
- Do you have an active membership in an Iowa church, club, professional or civic organization in Iowa, and participate as a result of the membership?

- Do you claim a benefit on the federal income tax return based on an Iowa home being the principal place of business?
- Do you have active checking or savings accounts or use of safe deposit boxes located in Iowa?
- Do you have a location of employment in Iowa or active participation in a business within Iowa?

Please keep in mind that no single factor will typically be sufficient to make a residency determination. When viewed as a whole, the answers to the above questions will generally give a good indication as to the individual's intent, and therefore, to the state of residence.

For more details on the subject of residency, including several examples, please refer to Iowa Rule 701-38.17.

Members of the military and their spouses should reference Iowa Tax Responsibilities of Military Personnel for additional information.

## INJURED SPOUSE

The "Injured spouse" designation is not recognized by the State of Iowa when using "married filing a joint return," filing status 2, or "married filing separately on a combined return," filing status 3.

If your spouse's refund will be used to pay a federal, state, county, or city debt, you must use the IA 1040 Long Form, filing status 4, "married filing separate returns" to prevent your refund from being applied to your spouse's debt.

Examples of "debt" include unpaid child support, college loans, tax, court fees and fines, and overpayments of ADC/FIP, food stamps, and unemployment.

## AMENDING TAX RETURNS

Paper filed amended returns may take a minimum of six months to process.

**To amend electronically:** Use State Only software. Simply file and transmit an "original" return. We will code it as "amended" once it arrives.

**Note:** Prior year returns cannot be amended electronically.

**To amend on paper:** To amend a 2011 return or a return for a prior year, use an IA 1040X or the appropriate-year IA 1040 with the word "Amended" written at the top. Include an explanation of the change(s). Attach the federal 1040X and any amended supplementary federal or Iowa forms.

**If your original return requested a refund,** wait until you receive your refund before filing an amended return to make sure you made no errors on your original return.

**If you owe additional tax with the amended return,** calculate the tax, penalty and interest due and include both your check and the IA 1040V payment voucher with the amended return. You may make your tax payment online through ePay (free direct debit) on our Web site or with a credit / debit card.

**No penalty for additional tax is due if** you voluntarily file an amended return and pay all tax due prior to any contact by the Department. However, interest will be due.

**Do not send** amended returns with the current-year return.

## **SUPPORTING DOCUMENTATION**

Include all necessary supporting information and a copy of your federal return. Do not attach or staple supporting information to the IA 1040.

Place documents in the following order:

1. Check or Money Order
2. Payment Voucher (1040V)
3. W-2s / 1099s
4. IA 1040
5. Schedules / Copy of federal return

If a schedule is required but results in zero, you must still include it.

## **TAX ADJUSTMENTS BY THE DEPARTMENT**

If the Department of Revenue adjusts your return, we will use the tax rates provided by Iowa law. The calculation of your tax liability by the Department may vary by up to \$4 from the tax table.

## **ESTIMATED PAYMENTS**

Iowa residents who expect to owe tax of \$200 or more for 2011 from income not subject to withholding tax must make quarterly estimated tax payments to avoid a penalty for underpayment of estimated tax.

Nonresidents with nonwage income from Iowa, see IA 1040ES instructions.

You can set up your payments to be automatically deducted from your bank or credit union account by using ePay (free direct debit) on our Web site.

If you wish to make your payments with paper, you must use the IA 1040 ES form.

Estimated payments may also be made by credit or debit card.

## **Farmers and Commercial Fishers**

If at least 2/3 of your income is from farming or commercial fishing, you may avoid penalty for underpayment of estimated tax in one of the following ways:

1. Pay the estimated tax in one payment on or before January 17, 2012, and file the Iowa income tax return by April 30, **or**
2. File the Iowa income tax return and pay the tax due in full on or before March 1, 2012.

## **EXTENSION REQUESTS**

**Our agency does not have an extension form to obtain additional time to file, nor do we honor a federal extension.**

If at least 90% of your total tax liability is paid by April 30, 2012, you will automatically have an additional six months to file your return. You have until October 31, 2012, to file your return timely. You will not be charged a late file penalty. However, you may owe a 2210 penalty for failure to make estimated payments. You will owe interest on any tax still due after April 30.

**How to determine if 90% of the tax you owe has already been paid:**

**Step 1:** From the IA 1040:

**A.** Add lines 49, 51, 53, 68, and 75 if payment was made by April 30.

**B.** Add lines 46, 55, and 73.

**Step 2:** Divide A by B. If the result is equal to at least 90%, an extension is automatic.

**Example:**

A equals \$4,434.

B equals \$5,017.

A divided by B is 88.4%.

This result is less than 90%. No extension is available to this taxpayer. This taxpayer will owe penalty and interest on the unpaid tax.

**Example:**

A equals \$4,834.

B equals \$5,017.

A divided by B is 96.4%.

This taxpayer receives an automatic extension until October 31 and will pay only interest on the unpaid tax.

**If you need to make a tax payment to meet the 90% requirement, you may:**

- arrange payment from your bank account through ePay (free direct debit) on our Web site.
- pay by credit/debit card online or by telephone
- use the IA 1040V payment voucher form

## **DECEASED TAXPAYER**

Write “deceased” on the top of the tax return. If your spouse died and you are filing a joint or combined return, write on the deceased’s signature line “Filing as a surviving spouse” and the date of death. If you have the

legal authorization to file for the decedent, sign the return with your legal title or authorization. Also, include any forms required to be filed with your federal return, such as federal form 1310 or a copy of the court certificate showing your appointment as a personal representative of the decedent.

## **IOWANS PAID IN FOREIGN CURRENCY**

Iowa residents who are paid in foreign currency must convert the currency to U.S. dollars as was done for federal tax purposes.

## **NET OPERATING LOSSES**

Iowa net operating losses will be carried back two years, except for losses incurred in Presidentially-declared disaster areas (3-year carryback) and losses incurred by farm corporations (5-year carryback). See IA 123 for the net operating loss worksheet.

## **FEDERAL BONUS DEPRECIATION / SECTION 179**

**Bonus Depreciation:** Iowa did not adopt the federal 100% bonus depreciation provisions passed by Congress for assets acquired during 2011. The adjustment for depreciation should be made on form IA 4562A to account for the difference between federal and Iowa depreciation. Also complete form IA 4562B (Iowa Depreciation Accumulated Adjustment Schedule).

**Section 179:** Iowa has adopted the federal provisions relating to increasing the expensing amount under section 179 of the Internal Revenue Code. The section 179 limit for Iowa for 2011 is \$500,000.

## **CERTIFIED TAX RETURNS FOR NONRESIDENTS**

Residents of other states who need a certified copy of the Iowa return for filing with their state of residence must include an extra copy of their Iowa return and a self-addressed stamped envelope when they file. A note stating the purpose of the extra copy should be included. The Department will stamp the copy and return it to you.

## **NONRESIDENTS WITH GAMBLING WINNINGS**

Complete the IA 1040, showing income from all sources similar to your federal return. Show gambling winnings as Other Income on line 14. Take eligible gambling losses on Schedule A. Complete the return through line 50. Then use the IA 126 to determine your credit based upon the percentage of Iowa income to total income. This credit is taken on line 51. Include a copy of your federal return.

## **REFUNDS MAY BE USED TO PAY DEBT**

The State of Iowa may take refunds to pay certain debts. This process is called *offsetting refunds*.

Debts that may be offset include:

- taxes owed the State of Iowa
- taxes owed the Internal Revenue Service
- unpaid child support
- overpayment of unemployment
- fines owed to counties
- unpaid college aid loans
- food stamp overpayment
- ADC / FIP overpayment
- any other debt owed to an Iowa state or municipal agency

When a refund is kept by the State to pay debt, a letter is sent to the taxpayer by the agency offsetting the money. For example, when a refund from an individual income tax return is used to pay back child support, the Department of Human Services will send a letter to the taxpayer.

A refund or payment may be taken to pay more than one debt; for instance, if a taxpayer owes College Aid money and also has an unpaid county fine. Each offsetting agency has up to 45 days to process their offset.

If an entire refund or payment is not needed to pay the debt, the remainder will be sent to the taxpayer. If direct deposit was requested, the remainder will be refunded by direct deposit.

This process may take at least 45-60 days.

## **HOW TO PRORATE**

Taxpayers using filing status 3 or 4 may be required to prorate (divide) certain entries on the IA 1040, such as taxable Social Security benefits, federal income tax refunds, estimated federal tax payments, itemized deductions, etc.

### **Example 1: How spouses would prorate a federal refund:**

2010 federal refund received in 2011 from a jointly-filed return: \$1,000

Spouse A has net income of \$15,000 on the 2010 IA 1040.

Spouse B has net income of \$30,000 on the 2010 IA 1040.

Total net income: \$45,000 on the 2010 IA 1040.

Divide Spouse B's net income by total income. The result is the percent of total income earned by Spouse B.

(Spouse B's net income) \$30,000 = 66.7%

(Total of both spouse's net income) \$45,000

Then take \$1,000 X 66.7% = \$667. This is Spouse B's portion of the refund, reported on line 27 in column B.

Spouse A's portion is \$1,000 - \$667 = \$333, which is entered on line 27 in column A.

These two amounts are entered on line 27 of the 2011 IA 1040.

Note: Round to the nearest one-tenth of a percent. For example, 66.74% becomes 66.7% and 66.75% becomes 66.8%

### **Example 2: How to prorate Social Security**

Spouse A receives Social Security benefits of \$30,000

Spouse B receives Social Security benefits of \$20,000

Total benefits are \$50,000

Divide Spouse A's benefits - \$30,000 - by the total benefits - \$50,000. The result - 60% - is the percent of total benefits earned by Spouse A.

Complete the Iowa Social Security Worksheet to determine what amount is taxable to Iowa. In this example, the total taxable Social Security benefits are \$8,000. Now prorate the \$8,000 between spouses.

Multiply \$8,000 by 60%, which equals \$4,800. This is Spouse A's portion of taxable Social Security benefits to be entered on line 13 in column A.

Spouse B's portion is \$8,000 - \$4,800 = \$3,200 which is entered on line 13 in column B.

### **Example 3. Federal estimated tax payment proration**

Spouse A has income of \$75,000 that is not subject to federal withholding.

Spouse B has income of \$8,000 that is not subject to federal withholding.

Their total income not subject to federal withholding is \$83,000.

The estimated federal tax payments for this year totaled \$18,000.

Divide Spouse A's income by the total. The result is the percent of income earned by Spouse A.

Spouse A's income not subject to federal withholding = \$75,000 = 90.36% (90.4%)

[Total of both spouse's income *not* subject to federal withholding = \$83,000]

Multiply \$18,000 by 90.4% = \$16,272. This is Spouse A's portion to be entered on line 32 in column A.

Spouse B's portion is \$18,000 - \$16,272 = \$1,728, which is entered on line 32 in column B.

## **RECORD KEEPING**

Iowa income tax returns, federal returns, and all relevant schedules should be kept for at least three years after filing the return.

## **CREDITS: REFUNDABLE OR NONREFUNDABLE**

### **Nonrefundable Tax Credit**

A nonrefundable tax credit will reduce your tax liability. This credit may reduce your tax liability down to zero, but it will never generate a refund.

### **Refundable Tax Credit**

A refundable tax credit will also reduce your tax liability. However, if this tax credit exceeds your tax liability it will generate an Iowa refund. An example of this type of credit is the Iowa Child and Dependent Care Credit or any other credit taken in Step 9 of the IA 1040 individual income tax form.

**Please note:** While Iowa and the IRS may have the same type of credit, it may or may not be refundable on both returns.

## **ROUNDING TO WHOLE DOLLARS**

Use whole dollars to complete your return instead of dollars and cents. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar.

For example, \$129.49 becomes \$129 and \$235.50 becomes \$236.

If you need to add two or more amounts to enter on a line, add them together first, then round.

For example, if you received two W-2 forms, one showing wages of \$5,000.55 and the other for \$18,500.73, add them for a total of \$23,501.28. The amount you enter on line 1 of the IA 1040 would be \$23,501.



## **WHAT TO DO IF YOU DON'T RECEIVE YOUR W-2**

Each year many Iowans do not get W-2s from their employers by the January 31 date required by the IRS.

1. If you have moved, call your employer with your new address.
2. If you still have a problem, first go back to your employer and try to find out why you have not received the W-2.
3. You may also call the IRS at 1-800-829-1040. They will work with you and explain the steps needed to receive a substitute W-2.

Iowa will accept a copy of the substitute W-2 filed with the IRS. However, the substitute W-2 may not show Iowa withholding. No credit for Iowa withholding can be given in this case unless you have pay stubs that show Iowa withholding.

4. If you need a W-2 from a previous year, here are some other possible options:
  - Social Security Administration (SSA) - will provide copies of Forms W-2 for retirement purposes at no charge and for other than retirement purposes for a fee. Call 1-800-772-1213, or visit the SSA web site at [www.ssa.gov](http://www.ssa.gov) for instructions on how to obtain wage information from the SSA.
  - Internal Revenue Service (IRS) - will provide an exact copy of a previously filed and processed tax return with attachments (including the W-2). You should complete Form 4506, Request for Copy of Tax Return, and mail it to the address listed in the instructions. A fee will be charged for each tax year requested.

## **CONFIDENTIALITY AND FAIR INFORMATION PRACTICES NOTICE**

Information from your return may be made available to the Internal Revenue Service or to tax officials of another state under a tax information exchange program. Except as allowed by law, information on your return cannot be released to anyone who is not an Iowa Department of Revenue employee. Any Department of Revenue employee who discloses tax return information without legal authority is subject to a fine of \$1,000. If you do not provide necessary information or if you provide fraudulent information, you may be charged penalties and interest and may be subject to criminal prosecution.

## **CONSUMER'S USE TAX**

### **Information for businesses and individuals**

Do you purchase items from out of state or from catalogs, magazines, vendors who advertise on television or radio, or through the Internet? Will those items be used in Iowa? Would they be subject to Iowa sales tax if purchased in Iowa?

Are you paying tax on those purchases? If not, you owe Iowa use tax on the purchase price.

If you purchase tangible property for use in Iowa and the seller does not charge you Iowa tax on the purchase, you owe a 6% tax known as the consumer's use tax on the price of the purchase.

This tax was established in 1937, three years after the sales tax was enacted, to create a fair playing field for Iowa businesses. The rate of the consumer's use tax is always equal to the state sales tax rate.

### **Individuals:**

To pay your consumer's use tax, send a check payable to "Treasurer State of Iowa" to the Iowa Department of Revenue, PO Box 10412, Des Moines IA 50306-0412 with a note explaining that it is for consumer's use tax. Include a list of the items purchased and their prices. Keep copies for your records. Anyone who regularly purchases merchandise from out of state for his or her own use in Iowa should register for a consumer's use tax permit and pay the tax on a quarterly basis.

### **Businesses:**

Businesses making taxable purchases on a regular basis should register with our Department to file consumer's use tax returns. However, some businesses may only occasionally make purchases for their own use and owe Iowa consumer's use tax. If this type of purchase is not typical for your business, instead of separately registering for consumer's use tax, you can report the purchase on Line 2 "goods consumed" of your quarterly sales tax return or file and pay the tax as outlined for individuals above.

For more information, see our Consumer's Use Tax publication.

## IOWA TAX RESPONSIBILITIES OF MILITARY PERSONNEL

**NEW FOR 2011:** Members of the armed forces, armed forces military reserve, and the national guard in an active duty status (as defined in Title 10 of the U.S. Code) can exclude pay received from the federal government for military service performed.

Active-duty military service pay is taxable only by the state in which the armed forces service member is a legal resident, which is usually the state of residence at the time he/she enters the service. In general, income other than active-duty military service pay of an Iowa resident in military service is taxable to the same extent as it is taxable for federal purposes, even if the Iowa resident is stationed outside of Iowa or outside of the United States.

### When must a military person file an Iowa income tax return?

If a military person is an Iowa resident, he or she must file an Iowa individual income tax return if:

- married and their combined income\* totals more than \$13,500 (\$32,000 if your or your spouse is 65 or older on 12/31/11)
- single and total income\* is more than \$9,000 (\$24,000 if 65 or older on 12/31/11)
- has income\* of \$5,000 or more and is claimed as a dependent on another person's Iowa return
- filing as head of household or qualifying widow(er) and total income\* is more than \$13,500 (\$32,000 if your or your spouse is 65 or older on 12/31/11)

\* Does not include pay received from the federal government for military service performed by members of the armed forces, armed forces military reserve, and the national guard in an active duty status.

**School District Surtax:** The school district surtax is applicable for resident members of the armed forces of the United States living in an Iowa school district, even if the member is not physically present in Iowa on the last day of the tax year. (IAC 42.1)

### Residency: (IAC 38.17)

Each person has one and only one state of residence. A person may be a resident of a state even though he or she does not actually live in the state.

A military person does not lose "home state" residency simply by being absent from the state while in the military. (Servicemembers Civil Relief Act)

### When is a military person an Iowa resident?

A military person is an Iowa resident if:

- he or she was a resident of Iowa at the time of enlistment and/or
- Iowa is declared as his or her Military Home of Record

A person remains an Iowa resident until positive action is taken to establish residency in another state.

### Establishing residency in another state

To establish residency in another state, a military person should first complete form DD2058, State of Legal Residence Certificate, which is available from the payroll officer of the Military Office of Personnel. This alone does not establish residency. A combination of the actions listed below is required to establish legal residence in another state.

- physical presence in the other state
- registering to vote in the other state
- changing driver's license
- registering vehicles in the other state
- applying for other privileges offered by the other state
- payment of real estate tax and/or income tax in the new state

If steps are not taken to change residency, a military person remains a resident of Iowa and is subject to Iowa income tax laws.

The Director of the Iowa Department of Revenue may require an individual to provide proof that residency has been established in another state.

### Residency of spouses of military personnel

A spouse of an Iowa-resident military person is not considered a resident of Iowa simply by marriage. If, however, the spouse was an Iowa resident when they married, the spouse is an Iowa resident until other action is taken to establish residency in another state.

If the spouse is an Iowa resident and has Iowa-source income, it may be beneficial to use filing status 3 (married filing separately on the combined return form).

Filing status 3 or 4 (married filing separately on the combined return or married filing separate returns) may be used by nonresident spouses with no Iowa-source income.

### Military Spouses Residency Relief Act

The federal Military Spouses Residency Relief Act allows a military servicemember's spouse to keep a tax domicile throughout the marriage, even if the spouse moves into another state, so long as the spouse moves into the state to be with a servicemember who is in the state because of military orders.

**The effective date is taxable years that begin on and after January 1, 2009.**

If you are a servicemember's spouse you may be exempt from Iowa income tax on your wages if:

- your spouse is a member of the armed forces present in a state other than your home state in compliance with military orders;
- you are present in a state other than your home state solely to be with your spouse;
- you maintain your domicile in your home state; and
- military orders must station the member of the armed forces in the state of Iowa.

This law effectively allows wages (but not other income, such as interest) to be sourced to a state other than the state in which the wages are earned.

This exemption from state income tax is broader than the exemption for service members themselves. Military servicemembers are also entitled to keep their residence under the Servicemembers Civil Relief Act for purposes of determining which state may tax their military pay; however, servicemembers may owe tax in the state where they are stationed if they have non-military compensation or other income from sources within that state.

So while a state where a military servicemember is stationed may still continue to tax non-military compensation earned by a servicemember in the state, it will not be able to tax the compensation earned by the nonmilitary spouse if that spouse claims another state as their tax residence.

**Iowa W-4**

The IA W-4 includes information related to this federal law. If you claim this exemption, check the appropriate box on the IA W-4, enter the state other than Iowa you are claiming as your state of domicile, and attach a copy of your spousal military identification card to the IA W-4 provided to your employer.

**Filing Iowa Income Tax Returns**

Spouses who qualify to claim this exemption on their Iowa Income Tax Return should report all-source income on the IA 1040, but show no Iowa wages on line 1 of the IA 126. Enter the amount of credit from line 33, IA 126 on line 51, IA 1040.

Iowa income tax withheld should be entered on line 60 of the IA 1040; then complete the remainder of the IA 1040 to determine the amount of any refund that may be due.

**Nonresidents/part-year residents stationed in Iowa**

Military persons who are not residents of Iowa are required to file Iowa income tax returns if their all-source

income meets the above requirements and their Iowa-source income is \$1,000 or more.

**Nonresident military income**

Beginning with tax year 2003, the following apply for Iowa as a result of federal legislation.

The nonresident military taxpayer does not include military pay on line 1 of the IA 1040 and also does not report it as Iowa income on the IA 126. The net result is a reduction of the tax rate on any other Iowa-source income.

In general, this applies only to active duty military and does not include the National Guard or reserve personnel.

Exceptions may exist if nonresident military are under active duty orders under a specific federal section — 502(f) of Title 32 of the United States Code.

All income, excluding military pay, is included on the Iowa income tax return (IA 1040) and tax is initially calculated on all-source income. Once this is done, the nonresident or part-year resident turns to another Iowa form, the IA 126 Nonresident and Part-Year Resident Schedule. Only Iowa-source income is included on this form and will not include military pay when calculating the credit. That credit is entered on the IA 1040 and is designed to minimize the taxation of income by Iowa and the other state.

Nonresidents and part-year residents must file both the IA 1040 and the IA 126 with a complete copy of the federal return. They cannot use the IA 1040A short form.

**WHAT INCOME IS SUBJECT TO IOWA TAX? (IAC 40.5)**

Military pay to Iowa residents must be included on line 1 of the IA 1040 to the same extent it is included on the federal return regardless of where the person is stationed when it is received.

Other income earned by an Iowa resident stationed in or out of Iowa is also taxable to Iowa to the same extent it is taxable on the federal level. If any of that income is correctly taxed by another state, then Iowa allows an out-of-state tax credit on the IA 1040. This credit is calculated on the IA 130 form, which must be included with the IA 1040 with a copy of the other state's return.

**WHAT INCOME IS NOT SUBJECT TO IOWA TAX?**

**Active duty pay**

Members of the armed forces, armed forces military reserve, and the national guard in an active duty status (as defined in Title 10 of the U.S. Code) can exclude pay received from the federal government for military service performed.

## IOWA TAX RESPONSIBILITIES OF MILITARY PERSONNEL continued

**NOTE:** Members who are employed full-time in the national guard (as defined in Title 32 of the U.S. Code) are not considered in an active duty status, so their pay is not excluded from Iowa tax.

Include all income on line 1 with other W-2, 1099, or W-2G income. Qualifying military income is then deducted on line 24.

### **Combat zone pay**

Income excluded by the federal government is also excluded for Iowa income tax purposes. For example, combat zone pay is excluded on the Iowa return because it is excluded for federal income tax purposes.

The federal Military Family Tax Relief Act of 2003 provides for a number of tax breaks related to military personnel. Iowa follows the federal treatment of the military adjustments to gross income.

The Internal Revenue Service Web site is your best source of qualifying combat zones and tax breaks related to military personnel.

### **Operation Iraqi Freedom, Operation New Dawn, Operation Noble Eagle, or Operation Enduring Freedom (IAC 40.61)**

There is an income tax exemption for active duty pay received from a source other than the federal government by a person in the National Guard or armed forces military reserve for service performed on or after January 1, 2003, pursuant to military orders for Operation Iraqi Freedom, Operation New Dawn, Operation Noble Eagle, or Operation Enduring Freedom. The individual needs only to be called to active duty under the appropriate orders to qualify for the exemption of active duty pay. The individual does not have to be serving overseas to be eligible for the exemption, but can be serving in Iowa or elsewhere in the United States under the appropriate military orders and qualify for the exemption for active duty pay.

Note that prior to tax year 2011, if a person in the National Guard or military reserve was called to active duty pursuant to military orders for an operation or purpose other than the operations specified above, the active duty pay is not exempt from Iowa income tax. (IAC 40.61)

Include all income on line 1 with other W-2, 1099, or W-2G income. Qualifying military income is then deducted on line 24. If you file a paper return, include a copy of your orders. If you file electronically, keep a copy of your orders with your tax records in case the Department requests them at a later date.

### **Persian Gulf Conflict and/or Bosnia-Herzegovina Peacekeeping (IAC 40.40, IAC 40.51)**

There is an income tax exemption for active-duty pay received from a source other than the federal government by a person in the National Guard or armed forces military reserve for services performed on or after August 2, 1990, pursuant to military orders related to the Persian Gulf Conflict and/or for services performed on or after November 21, 1995, pursuant to military orders related to peacekeeping in Bosnia-Herzegovina.

### **Military Student Loan Exemption (IAC 40.63)**

Military student loan repayments included in federal adjusted gross income are exempt from Iowa income tax if the following criteria are met.

This exemption may be taken by persons in the:

- armed forces
- armed forces military reserve
- National Guard

The individual must be on active duty at the time of the loan repayment.

Include the loan repayment amount in line 1 and deduct it in line 24. (IAC 40.63)

### **Exclusion of Distributions from Retirement Plans by National Guard members and members of military reserve forces of the United States (IAC 40.58)**

If a National Guard member or member of the military reserve is called to active state or federal duty and makes a withdrawal from a qualified retirement account of the member, the amount of the withdrawal is not subject to Iowa income tax or state tax penalty. If this income is reported as taxable pension income on line 9 of the Iowa return, enter that amount on line 24 of the Iowa 1040.

### **FORGIVENESS OF TAX: (IAC 39.11)**

#### **Iowa income tax is forgiven if:**

- the deceased was killed in a combat zone, or
- the taxpayer is missing in action and presumed dead, or
- the deceased was killed outside the United States due to terrorist or military action while he/she was a military or civilian employee of the United States and
- the person's federal income tax was forgiven

**Single status:** Iowa income tax is forgiven for the tax year in which the individual was killed or was missing and presumed dead and for the tax year prior to the year of death.



## IOWA TAX RESPONSIBILITIES OF MILITARY PERSONNEL continued

**Married / year of death:** If the deceased was married at the time of death, all tax is forgiven for the year of death if the filing status is joint or married filing separately on the combined return for that tax year.

**Married / prior year:** All tax is forgiven if the deceased was married at the time of death and a joint return or a married filing separate return was filed for the year prior to death. Please note that if the deceased had filed using the married filing separately on the combined return status, only the state income tax attributable to the deceased will be forgiven. Prior-year returns cannot be amended to change the filing status. (IAC 39.11)

### RETURN DUE DATE AND EXTENSIONS (IAC 39.12, IAC 39.14)

The usual filing deadline for Iowa income tax returns is April 30. If 90 percent of the tax due is paid by that time, the deadline is extended to October 31. No extension form is available or required.

Qualifying individuals are granted extensions under certain circumstances for filing returns and for other acts related to the Department. These are listed as follows:

#### Who qualifies for an extension?

- Individuals on active duty federal military service in the armed forces, armed forces military reserve, or National Guard who are deployed outside the United States
- A person in the military serving in support of those forces
- A spouse of a person listed above if they file jointly or separately on a combined return
- An eligible individual who was continuously hospitalized because of illness or injury in the combat zone

#### “Other acts related to the Department” includes:

- Filing claims for refund for any tax administered by the Department
- Making tax payments other than withholding payments
- Filing appeals on the tax matters
- Filing other tax returns
- Performing other acts described in the Department’s rules

#### Extension periods

In general, the additional time period for filing state returns and performing other acts is 180 days.

#### IRS MILITARY WEB PAGE:

## IOWA INCOME TAX RESPONSIBILITIES OF AMERICAN INDIANS

### Definitions

- “American Indians” means all persons of American Indian descent who are members of any recognized tribe.
- “Settlement” means all land within the boundaries of any recognized American Indian settlement or reservation within the State of Iowa.

### American Indians living on the settlement

#### Taxable Income:

- Wages for working off the settlement.
- Income from business or real estate located off the settlement.

#### Exempt Income:

- Wages from working on the settlement.
- Income from business or property located on the settlement.
- Interest, dividends, and other income from intangibles, regardless of where the bank accounts, etc., are located.

### American Indians living off the settlement

- If residents of Iowa: Taxed in the same manner as other residents. (Income from working on the settlement is taxable.)
- If nonresidents of Iowa: Taxed in the same manner as other nonresidents. (Income from working on the settlement is taxable.)

### Persons who are not American Indians, regardless of whether they live on or off the settlement

- If residents of Iowa: Taxed in the same manner as other residents. (Income from working on the settlement is taxable.)
- If nonresidents of Iowa: Taxed in the same manner as other nonresidents. (Income from working on the settlement is taxable.)